

AR69

Windspear Business Reference Library
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6



Annual Report 2001

Including the Slocan Forest Products Ltd.

2001 Annual Information form

Dated April 1, 2002



Table of Contents

Report to Shareholders	1
Financial Highlights	4
Management's Discussion and Analysis of Financial Results	5
Slocan at a Glance	14
Annual Information Form	17
5 Year Review	36
Consolidated Financial Statements	37
Officers and Senior Management	55

Brandt Louie
Chairman



Jim Shepherd
President & CEO



Report to Shareholders, Employees and Communities

2001 was one of the most difficult and challenging years the forest industry has faced in a long time. We started the year with some of the lowest lumber prices experienced in many years. Our challenges increased with the March expiry of the Softwood Lumber Agreement with the United States. Immediately following this, American lumber interests commenced countervail and anti-dumping duty proceedings with the U.S. Department of Commerce. The dispute with U.S. special interest groups has now resulted in the imposition of a 19.34% countervail duty plus a 7.55% anti-dumping duty. We are implementing strategies to mitigate the duties and ensure the Company remains profitable.

Although the demand for lumber continued relatively strong throughout 2001, excess supply in world markets kept the price for lumber and other wood products at low levels throughout much of the year. The prices for the benchmark random length 2x4 SPF lumber averaged US\$250 in 2001 compared to US\$257 in 2000 (and US\$343 in 1999).

Our financial results for the year reflect these lower prices. We experienced a loss of \$6.8 million (\$0.19 per share) for the year after a \$26 million pre-tax provision for contingent countervailing and anti-dumping duties, compared to net earnings of \$61.2 million (\$1.62 per share) in the prior year (and \$108.4 million or \$2.84 per share in 1999). Further details of this and an explanation of our financial results are provided in the section of this report entitled "Management's Discussion and Analysis of Financial Results".

The length and depth of these adverse conditions and low prices in our markets has been extraordinary. However, we are finally seeing recovery in prices in the first quarter of 2002. With low interest rates and improved consumer confidence, we have seen a significant increase in housing starts and higher demand for lumber and other building products with substantial increases in product prices (to US\$300 for lumber in March 2002). This is contributing to significantly improved results throughout our operations in the first quarter of 2002.

The fact that we are in a good operating position enables us to weather these conditions and lessens their impact on Slocan. As we have previously reported to you, we have had a considerable focus on reducing our operating costs and improving our financial position to enable us to continue to compete in adverse market conditions and to benefit from improving product prices.

The key to our success continues to be our focus on controlling and reducing costs and maximizing product margins. We made significant progress in improving log quality, increasing conversion efficiency and improving grade out-turns in 2001. This will ensure that we will continue as a top achiever in the industry.

We did have some notable accomplishments at Slocan during 2001. We achieved the status of being the largest shipper of Canadian dimension lumber into Japan. Our long-standing commitment to this market is now beginning to bear fruit. Our customer base is wide and covers all segments of the Japanese home building industry. In a similar fashion, Slocan has become a significant supplier to Korea, Taiwan and China.

In 2000, we formed a joint venture to undertake the development and construction of a 700 million square feet capacity Oriented Strand Board mill at Fort St. John in northern British Columbia. During 2001 we proceeded with site selection and design of the facility and submitted an application for a permit under the Environmental Assessment Act. We are very pleased to have received our Project Approval Certificate in early 2002, which will allow us to proceed with the next phase of this venture.

Prices for OSB were constrained in 2001 by the same factors as those that affected lumber generally. Prices for OSB averaged US\$159 in 2001 (compared with US\$206 in 2000) as a result of lower demand. We are proceeding with further steps towards the development of our mill, but do not anticipate commencement of construction until 2003.

Significant gains in product quality and production efficiency have been realized at our Tackama plywood mill. Plywood has remained a positive market in what otherwise might be described as a difficult commodity environment. We continue to emphasize the use of aspen because of its relatively low cost and have developed a loyal customer base utilizing higher grade and industrial grade panels.

Pulp prices have a very large impact on our business through Taylor Pulp Division and our position as one of the largest chip suppliers in the province. Although CTMP pulp prices dropped dramatically in the year 2001, the operating costs of the mill were similarly decreased and the mill was able to achieve a cash positive position by year end.

During 2001, we were successful in achieving ISO 14001 certification for our woodlands operations. We are proud of this achievement because it provides independent third party verification that all our operations are meeting high environmental standards.

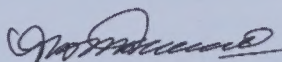
With the current business environment and duties on lumber shipments to the U.S., there is a further need to increase cash margin on all our products. Part of this will result from a focus on increasing the out-turn of those products with the highest margin such as J-grade and MSR and minimizing low-grade products.

During 2002, we are also focusing on improving our safety programs throughout our operations, increasing training in supervisory and technical areas and ensuring our environmental performance meets the requirements and expectations of our communities.

This report is unique in our Company's history. This is the first annual report which is not from our original Chairman and the founder of Slocan - Ike Barber. Ike announced in October 2001 that he would retire as Chairman and did so after his 79th birthday this year. Ike has been a remarkable driving force in the history not only of Slocan but also the forest industry in British Columbia and he leaves an indelible mark on us. We at Slocan will continue to pursue those fundamental elements of our Company's success always emphasized by Ike Barber: an excellent timber base supporting efficient and low cost operations designed to maximize the production of quality products.

Jim Shepherd, our Chief Executive Officer, and I, as Chairman, on behalf of the Board of Directors thank Ike for all his contributions to the growth and success of our Company over his 24 years of leadership and hope to follow his example by continuing on the path of building Slocan.

We also want to thank all of our employees and contractors, and our management team for meeting the challenges of 2001 and continuing to work together to deliver improved results in 2002.



Brandt Louie
Chairman



Jim Shepherd
President and
Chief Executive Officer

(Figures in the Financial Highlights tables are expressed in thousands of dollars except Financial Analysis, Common Share Data and Other Data, and should be read in conjunction with the Notes set out below)

Sales and Earnings	2001	2000
Sales	\$ 867,703	\$ 925,863
EBITDA before U.S. duties ⁽²⁾	97,370	184,656
Cash flow from operations before changes in non-cash working capital items	51,748	92,005
Earnings (loss) before income taxes	(19,175)	100,003
Net earnings (loss)	(6,809)	61,203
Financial Position		
Working capital	\$ 221,728	\$ 192,380
Total assets	839,609	873,983
Long-term debt	381,648	359,880
Shareholders' equity	214,111	233,030
Capital expenditures	31,407	70,712
Financial Analysis		
Return on capital employed ⁽³⁾	2.71%	14.29%
Return on common shareholders' equity	(3.05)%	27.75%
Ratio of current assets to current liabilities	2.66:1	2.01:1
Ratio of net debt to shareholders' equity ⁽¹⁾	58:42	52:48
Net earnings as a % of sales	(0.78)%	6.61%
Common Share Data		
Common shares outstanding ⁽¹⁾		
Weighted average	36,726,288	37,838,920
Year end position	36,895,896	36,495,655
Per Share (in dollars)		
EBITDA before U.S. duties ⁽²⁾	\$ 2.65	\$ 4.88
Cash flow from operations before changes in non-cash working capital items	1.41	2.43
Net earnings - basic	(0.19)	1.62
- diluted	(0.19)	1.59
Dividends	0.375	0.50
Shareholders' equity	5.80	6.39
Other Data		
Production:		
Lumber (Mfbm)	1,383,183	1,384,489
Plywood (M sq. ft.) 3/8" basis	229,234	212,796
OSB (M sq. ft.) 3/8" basis	475,217	428,953
Wood chips (BDUs)	747,869	749,750
Pulp (ADMts)	156,200	184,741

Notes to Financial Highlights:

- (1) Reflects the re-purchase of 1,910,000 common shares by the Company in 2000 at an average price of \$8.48 per share.
- (2) Means earnings before interest, taxes, depreciation and amortization and before contingent liabilities of approximately \$26 million accrued for countervailing and anti-dumping duties. See note 10 to the Consolidated Financial Statements.
- (3) Return on capital employed: equal to net income plus interest, after tax, divided by the average of the capital employed at the beginning and end of the year.



Management's Discussion and Analysis of Financial Results

Slocan Forest Products Ltd. (the "Company") directly, and in partnership with or through subsidiary companies (collectively "Slocan"), manufactures and markets dimension lumber, specialty wood products, panel products, wood chips and chemi-thermo mechanical pulp ("CTMP"). These products are sold throughout the world with principal markets in North America, Asia and Europe.

Lumber, plywood and wood chips are produced at Slocan's ten sawmills and one plywood facility throughout the interior of British Columbia. Slocan also produces oriented strand board ("OSB") at a facility at Fort Nelson, British Columbia and bleached and unbleached softwood and hardwood CTMP at the Taylor Pulp Division pulp mill (the "Pulp Mill") located in Taylor, British Columbia. Slocan remanufactures lumber into value added and engineered wood products at its custom remanufacturing facility at Chilliwack, British Columbia.

Slocan's facilities have the capacity to produce up to 1.65 billion board feet of lumber, 35 thousand cubic metres of laminated beams, 280 million square feet of plywood (3/8 inch basis), 510 million square feet of oriented strand board (3/8 inch basis), 800,000 bone dry units of wood chips and 220,000 tonnes of CTMP annually.

SIGNIFICANT EVENTS

During 2001 and 2000 certain significant transactions and events occurred which affected Slocan's operations, financial position and corporate structure.

Softwood Lumber Dispute

On April 2, 2001, after the expiry of the Canada/U.S. softwood lumber agreement, certain U.S. industry and trade groups filed petitions with U.S. Department of Commerce (USDOC) and the U.S. International Trade Commission (USITC) for the imposition of antidumping (ADD) and countervailing (CVD) duties on softwood lumber shipped from Canada to the United States. The USITC made a preliminary determination that there was a reasonable indication that the U.S. lumber industry was threatened with material injury and, on August 9, 2001, the

USDOC issued a preliminary CVD rate for the Canadian lumber industry of 19.31% on shipments of softwood lumber to the U.S. after August 16, 2001. The USDOC made its preliminary antidumping determination on October 31, 2001 and issued a preliminary duty rate for Slocan of 19.24% for products sold into the U.S. market commencing November 6, 2001, but did not apply any retroactive ADD.

On March 22, 2002, the USDOC in making its final determination, issued a final CVD rate for the Canadian lumber industry of 19.34% and a final ADD rate for the non-respondent companies and for Slocan of 9.67% and 7.55% respectively. If a final affirmative injury determination is made by the USITC in May 2002, Slocan and other Canadian forest companies will be required to commence payment of cash deposits of CVD and ADD on all of their shipments of softwood lumber to the United States effective approximately mid-May 2002.

The Company and other Canadian forest product companies categorically deny the U.S. allegations and strongly disagree with the CVD and ADD determinations made by the USITC and USDOC. Unless a negotiated resolution is achieved, these parties expect to pursue all available procedures to challenge the CVD and ADD determination under the North American Free Trade Agreement (NAFTA) and through the World Trade Organization (WTO).

As a result of the USDOC determinations, the Company has accrued \$21.0 million for CVD and \$5.0 million for ADD (\$13.3 million and \$3.2 million respectively after tax) in its financial statements for the period from August 17 to December 31, 2001. The accrual for CVD is at the final CVD rate. The provision for ADD is based on the estimated duties which the Company expects may apply if the duty determination is confirmed.

For a discussion of the impact of the ADD and CVD, see the "Risks and Uncertainties" section of the Management's Discussion and Analysis of Financial Results below and Note 11 to Slocan's Consolidated Audited Financial Statements included in this Annual Report for 2001.

Normal Course Issuer Bid

Between July and the end of December, 2000, the Company purchased for cancellation 1,910,000 of its outstanding Common Shares at an average price of \$8.48 per share pursuant to a normal course issuer bid.

Slocan/Louisiana-Pacific Canada Joint Venture

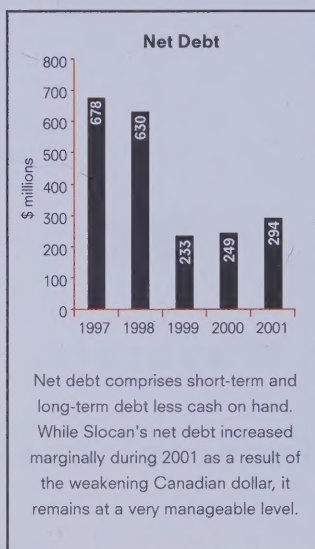
In June 2000, Slocan and Louisiana-Pacific Canada Ltd. formed a joint venture company, Slocan-LP OSB Corp., which is owned equally by both companies. The joint venture was formed to build and operate an OSB plant in northern British Columbia, with an operating capacity of 700 million square feet. The plant is expected to cost approximately \$200 million to complete. In June, 2000, Slocan obtained approval from the Ministry of Forests to amend a pulpwood agreement

covering up to 500,000 cubic metres of annual timber harvest, previously available to the Company only for further pulp production capacity. This amendment allows Slocan to use up to 330,000 cubic metres of the fibre available under this tenure in connection with the new OSB plant. In 2001, Slocan-LP OSB Corp. selected a site and, in early 2002, obtained the required environmental approvals for the plant. Assuming a decision is made by the joint venture company to proceed with the project, the timing of commencing construction will be subject to a review of the supply and demand balance for OSB, favourable economic conditions and consideration of the implications of any British Columbia forest policy changes arising out of the resolution of the softwood lumber dispute.

COMPARISON OF 2001 AND 2000 OPERATING RESULTS

Net Earnings

Slocan incurred a net loss of \$6.8 million for 2001 compared with consolidated net earnings of \$61.2 million for 2000. The net loss per share for 2001 was \$0.19 (\$0.19 on a diluted basis), compared with net earnings per share of \$1.62 (\$1.59 on a diluted basis) for 2000.



Results of operations in 2001 were negatively affected by lower prices for lumber, wood chips, OSB and pulp and by provisions (of \$16.5 million after tax or \$0.45 per share), made by the Company in its financial statements relating to the imposition of the preliminary CVD and ADD. Lower prices were partially offset by a recovery of future income taxes of \$6.3 million as a result of a reduction in provincial corporate income taxes. Results of operations in 2000 were affected by a lumber inventory write down to market of \$5.2 million after tax or \$0.14 per share.

Earnings from Operations

Slocan had earnings from operations, before U.S. duties, of \$42.1 million in 2001 compared to \$127.7 million in 2000. Net sales in 2001 were \$867.7 million, down 6.3% from \$925.9 million in 2000, due to lower lumber, wood chips, OSB and pulp prices. Lumber and OSB prices were lower due to excess supply. In addition, uncertainty in the marketplace as a result of the softwood lumber dispute with the United States had a negative impact on lumber prices. Wood chip prices declined as a result of lower northern bleached softwood kraft (NBSK) pulp prices. Pulp prices declined during the year as a result of an oversupply of pulp world-wide.

Lumber Operations

Slocan had earnings from its lumber operations, before U.S. duties, of \$44.8 million in 2001 compared to \$72.2 million in 2000. The provision for U.S. duties of \$26.0 million reduced earnings from lumber operations in 2001 to \$18.8 million.

Lumber selling prices were lower in 2001 as a result of the uncertainty surrounding the preliminary CVD and ADD and excess supply. The benchmark selling prices for random length SPF lumber prices averaged US\$250 per mfbm in 2001 compared with US\$257 per mfbm in 2000. The lower average prices for random length SPF in 2001 reflect, in addition to the impact of the CVD and the ADD, the combined effects of weak demand in North American and offshore markets and the oversupply of lumber in these markets. The annual rate of U.S. housing starts in 2001 increased to 1.6 million, 2.1% over 2000 levels. The effects of the lower lumber prices in

2001 were partially offset by increased shipments and the continuing focus on manufacturing and logging cost reductions at all of the Company's lumber facilities. Average stumpage costs in 2001 were approximately 16% lower than in 2000 as a result of the lower lumber selling prices. Lumber shipments increased by 10.3% from 1,297 mfbm in 2000 to 1,441 mfbm in 2001.

Wood chips revenue decreased by approximately 26% to \$69.8 million as a result of a decrease in NBSK pulp prices.

Each of Slocan's sawmills took total curtailments ranging from five to eight weeks in 2001, due to a build up of lumber inventories caused by periods of low prices. Sawmill operations were curtailed for three weeks in 2000 in order to balance lumber production with U.S. quota volumes under the then applicable Canada/U.S. softwood lumber agreement. With the exception of this down time, all of Slocan's sawmill facilities operated two eight hour shifts per day in 2001 and 2000 except at the Quesnel Division which operated two and one-half shifts per day for four months in 2001, at the Tackama Division which operated two twelve hour shifts for ten months in 2000 and at the Valemount Division which operated one shift per day for eleven months in 2001 and all year in 2000.

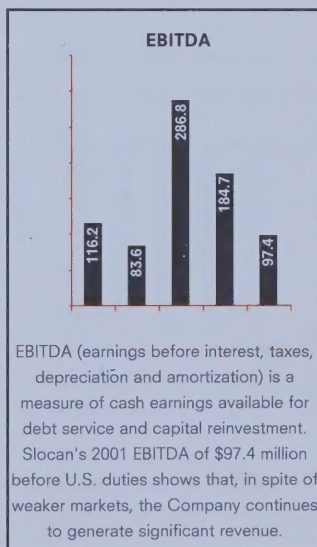
Panel Operations

Slocan's OSB and plywood operations had earnings from operations of \$13.4 million for 2001 compared with \$38.1 million for 2000.

Plywood prices decreased by 3% from 2000 levels as a result of an oversupply of panels in North America and decreased offshore demand. The Company's average net mill return was slightly higher than in 2000 as a greater percentage of higher grade product was produced. OSB prices averaged 23% below 2000 due to an oversupply of product caused by an increase in North American production in 2001.

Plywood volumes for 2001 were 10% higher than in 2000 with the addition of increased production from the Tackama Division's new lathe line for the full year in 2001.

OSB production volumes were 11% higher in 2001 than 2000 due to continuing benefits from the press expansion project at the OSB plant completed in September, 2000.



The Tackama Division plywood mill shut down for four weeks in 2001 compared to a shutdown of two weeks in 2000. With the exception of this down time, the Tackama plywood mill operated two twelve hour shifts all year in 2001 compared to two eight hour shifts for five months and two twelve hour shifts for seven months in 2000. The OSB plant operated two twelve hour shifts per day during both 2001 and 2000.

Pulp Operations

Slocan's Pulp Mill incurred a loss from operations in 2001 of \$11.3 million compared with earnings from operations of \$23.7 million in 2000. Decreased earnings in 2001 resulted from lower product prices and reduced production levels because of weak demand for pulp and high inventory levels in world markets. Pulp production for 2001 was approximately 15% below the Pulp Mill's 2000 production level primarily due to production cutbacks in 2001.

The benchmark NBSK price decreased from US\$710 per ADMt at the end of 2000 to US\$500 per ADMt at the end of 2001. Hardwood kraft prices decreased from about US\$685

per ADMt to US\$430 per ADMt in the same period. CTMP prices followed those of kraft pulp in 2001. The weakening demand for hardwood kraft in the year reduced the price for aspen CTMP down from US\$610 per ADMt at the beginning of the year to US\$380 by the end of 2001.

As a result of the weaker hardwood market, the hardwood pulp component of production decreased from 34% of production in 2000 to 23% of production in 2001.

Non-Segmented Items

Corporate costs decreased in 2001 to \$4.7 million compared with \$6.4 million in 2000. The decrease was due to a reduction in incentive payments and one time adjustments.

Financial Position

Slocan's cash position at the end of 2001 was \$87.9 million compared with \$112.8 at the end of 2000.

Cash flow from operations, excluding reforestation expenditures, before change in non-cash working capital items, decreased to \$71.6 million in 2001 from \$109.8 million in 2000. This decrease was a direct result of lower sales



QUARTERLY INFORMATION \$Million, Except for Per Share Amounts

2001	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Sales	201.3	251.2	210.9	204.3	867.7
Net earnings (loss)	(4.3)	9.6	4.0	(16.1)	(6.8)
Net earnings (loss)– per common share					
Basic	(0.12)	0.26	0.11	(0.44)	(0.19)
Diluted	(0.12)	0.26	0.11	(0.44)	(0.19)
2000	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
Sales	268.9	229.3	215.4	212.3	925.9
Net earnings	31.8	20.7	1.6	7.1	61.2
Net earnings – per common share ⁽¹⁾					
Basic	0.84	0.54	0.04	0.20	1.62
Diluted	0.82	0.53	0.04	0.19	1.59

Notes:

(1) The quarterly per share numbers differ from the total for the year as a result of the share repurchases during the year. See "Normal Course Issuer Bid" above.

prices for the Company's lumber, OSB and pulp products, which were partially offset by lower average stumpage costs. Cash flow from operations in 2001, including reforestation expenditures of \$19.9 million, were reduced by an increase in non-cash working capital items of \$32.5 million, to \$19.2 million. This amount compares with cash flow from operations of \$104.8 million in 2000. The increase in non-cash working capital in 2001 is primarily attributable to the payment of income taxes during the year.

In 2001, as a result of the weakening of the Canadian dollar against the U.S. dollar and the conversion of the Company's debt denominated in U.S. dollars to Canadian dollars at the year-end rate, Slocan's U.S. dollar denominated senior notes payable increased by \$21.8 million, as compared to an increase of \$13.5 million in 2000.

Total principal repayments on long-term debt during 2001 amounted to \$1.9 million compared with \$1.8 million during 2000. At December 31, 2001, Slocan's long-term debt to equity ratio was 1.78 to 1 compared with 1.54 to 1 at the end of 2000. The increase in the Company's leverage in 2001 was a result of a combination of the decrease in shareholders' equity resulting from the loss in 2001 and the increase in long-term debt caused by the lower exchange rate for the Canadian dollar.

Total interest costs, including the amortization of deferred foreign exchange gains and losses, increased in 2001 to \$35.3 million from \$27.4 million in 2000. This increase reflects the impact of the lower Canadian dollar on U.S. dollar denominated interest costs and reduced interest income as a result of a lower average cash balance during the year and the reduction in short term interest rates.

The Company paid Common Share dividends of \$13.8 million in 2001 as compared to \$19.1 million in 2000. Fixed asset additions, including roads, totalled \$31.4 million, \$39.3 million lower than in 2000, as the Company completed its major capital program in 2000.

All of the above activities and expenditures resulted in a net cash outflow for 2001 of \$24.9 million compared with a net cash outflow of \$4.6 million for 2000.

The Company's ratio of current assets to current liabilities, excluding the current portion of long-term debt, at December 31, 2001 was 2.66 to 1 compared with 2.01 to 1 at the same date in 2000.

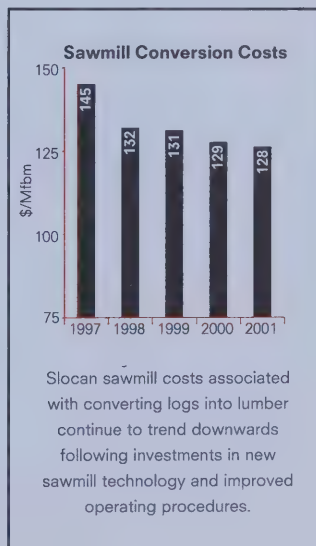
Liquidity and Capital Resources

In addition to the \$87.9 million of cash available to Slocan at year end, the Company has an operating line of credit facility of \$120 million, which was not utilized except in connection with certain deposit and security arrangements, as of December 31, 2001. This operating facility was established with a three year term which expires on August 29, 2002. Slocan is securing a portion of its bonding obligations in respect of CVD and ADD on softwood lumber exports to the United States with letters of credit under this operating credit facility. Slocan does not anticipate any problems in continuing to meet these obligations and has made modifications to its lending agreements to enable it to continue to comply with required financial ratios pending resolution of accrued duty obligations and the softwood lumber dispute.

Slocan expects to fund its year 2002 capital and operating cash requirements with cash generated from operations. Any funding required in connection with Slocan's 50% share of contributions to Slocan-LP OSB Corp. for 2002 for the proposed construction of the new

OSB plant is expected to be sourced from the Company's cash on hand and cash generated from operations.

As of December 31, 2001 and 2000, Slocan had a principal amount of US\$240 million outstanding under its senior notes and no term bank debt at the end of either year. The senior notes and the operating facility are secured by security interests over substantially all of Slocan's assets. During 2001 and 2000, Slocan repaid an aggregate of \$1.9 and \$1.8 million respectively of term debt from cash generated from operations.



Dividends

Slocan paid regular quarterly dividends of \$0.075 per share through 2000, together with special extra dividends of \$0.10 per share in respect of each of the first and second quarters of the year in the light of the Company's strong cash position. Slocan continued paying regular quarterly dividends of \$0.125 per share in 2001 but determined not to pay a dividend in the fourth quarter of 2001 in the light of the events of September 11, 2001 and prevailing economic uncertainties. The Company paid a total of \$13.8 million in dividends in 2001, or \$0.375 per share, compared to \$19.1 million, or \$0.50 per share, in 2000.

Risks and Uncertainties

Operating results of Slocan are significantly affected by fluctuations in the selling prices of lumber, plywood, OSB, wood chips and pulp, and by fluctuations in interest rates and currency exchange rates. Product selling prices are, in turn, dependent on a number of factors including the general level of economic activity in the world, residential and other construction and renovation activities, as well as the demand for wood, panel and pulp products. Slocan maintains the majority of its term debt in fixed rate U.S. dollar borrowings, and a large portion of its sales are in U.S. dollars, which partially mitigates the impact of foreign exchange fluctuations on revenues.

As a general policy, Slocan has restricted its hedging and derivative transactions to forward sales of U.S. dollars and of random length SPF lumber. These activities have been designed to partially hedge Slocan's exposure to U.S. dollar revenues in excess of its U.S. dollar cash requirements and hedge against decreases in lumber prices. The hedging of the Company's U.S. dollar revenues in 2000 and 2001 did not have a material impact on its earnings for either year.

Based upon the anticipated level of its operations in 2002, prevailing market prices and the changes in prices set out below, the sensitivities of Slocan's earnings from operations to price changes in its principal products and interest and foreign exchange rate changes are indicated in the "Sensitivity" table:

Sensitivity	Change in Unit Price	Annual Change in Earnings (millions)
Lumber ⁽¹⁾	US \$10	\$19.7
Plywood ⁽²⁾	CDN \$10	\$2.7
OSB ⁽²⁾	US \$10	\$7.7
Wood Chips ⁽³⁾	CDN \$5	\$3.3
Pulp ⁽⁴⁾	US \$10	\$3.0
Interest ⁽⁵⁾	1%	\$0.0
Exchange Rates (change of \$0.01 Cdn. relative to US\$1.00)	\$0.01	\$4.7

(1) Thousand feet board measure (mfbm)

(2) Thousand square feet (3/8" basis)

(3) Bone dry unit (BDU)

(4) Air-dried metric tonne (ADMt)

(5) All of Slocan's term indebtedness is at a fixed rate of interest and no borrowings are anticipated under its operating facility.

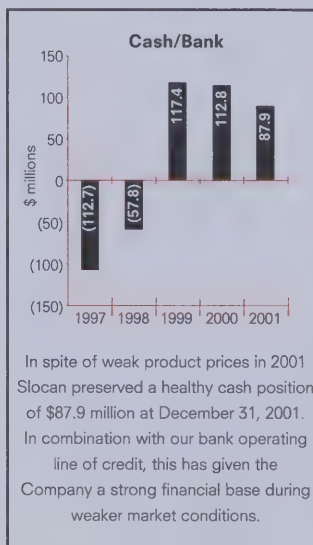
(6) Actual sensitivities will vary if volumes sold deviate significantly from anticipated levels.

In addition to price volatility, there are also risks and uncertainties for Slocan which arise as result of its sales of wood products into the United States. From 1996 through March 2001, shipments to the United States from British

Columbia were subject to quotas under the five year Canada/U.S. softwood lumber agreement which expired March 31, 2001. The agreement imposed duties on lumber shipments in excess of the producer's quota-free volume as determined under the agreement. The Company's quota under the agreement, together with lower prevailing lumber prices and an oversupply of lumber in North America, led to production curtailments at certain of its facilities in 2001 and 2000.

The expiry of the softwood lumber agreement has resulted in the proceedings and the imposition of the preliminary CVD and ADD discussed under "Softwood Lumber Dispute" above and creates both

risks and uncertainties for Slocan and other Canadian exporters of lumber to the U.S. market.



Although a resolution of the softwood lumber dispute between Canada and the United States may yet be negotiated, it is not possible at this time to assess the timing or likelihood of such an agreement or its potential terms. If the parties are unable to negotiate a resolution, Slocan and other Canadian forest companies will commence payment of cash deposits approximately mid-May 2002. If a resolution is not achieved, the Canadian federal and provincial governments and the lumber industry will appeal the United States CVD and ADD determinations before panels constituted under NAFTA and the WTO. These panels would not likely render a final determination of the dispute for more than a year.

In seeking a resolution of the dispute, the parties, including the Province of British Columbia as owner of the forest resources in the Province, have discussed numerous proposals for changing the regulation of the forest industry and forestry policy in British Columbia.

Many of these proposals, if implemented, may affect Slocan and its operations, some positively and some negatively. However, until a negotiated settlement is reached or a final determination is made to resolve the dispute, Slocan cannot predict which, if any, of these proposals may be implemented or the impact of any of these proposals on its operations or its business.

To the extent that, after mid-May 2002, Slocan and other Canadian forest products producers are required to pay cash deposits for CVD and ADD under the determination issued by the USDOC and the USITC, there will be an increase in the cost of lumber sold by Slocan and other Canadian producers to the United States.

In order to limit the impact of the uncertainties surrounding any replacement to the softwood lumber agreement or other resolution to the lumber dispute, Slocan will continue to emphasize the production of value-added and engineered wood products which were exempt under the previous agreement through, for example, its custom lumber remanufacturing facility near Vancouver, B.C., and to develop greater sales to domestic and non-United States export markets.

Slocan is exposed to credit risk on accounts receivable from customers mainly in the solid wood products businesses.

To manage this risk, Slocan has credit policies which include the analysis of the financial position of its customers and the regular review of their credit limits. In certain offshore markets, Slocan requires bank letters of credit or utilizes credit insurance.

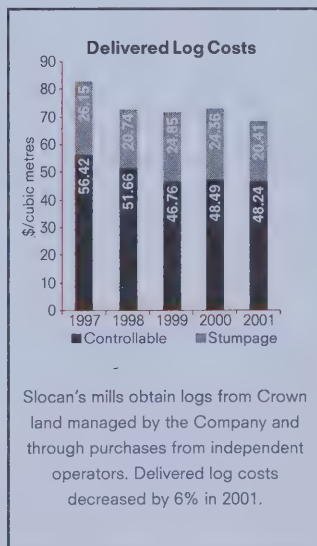
Other risks and uncertainties facing Slocan, as well as other forest product companies in North America and Europe, include pressures from special interest groups on both forest products companies and their customers and a changing regulatory environment. Over the last several years these pressures have resulted in new resource and environmental regulations, government-sponsored initiatives to study new proposals relating to land use and resources, expropriation and compensation, requirements to reduce or eliminate certain types of effluent and emissions, changes in market demand for certain products and restrictions on operating activities. These pressures have also lead to the development of the various registration and certification systems for the forest industry which Slocan has achieved or is pursuing.

Some parts of British Columbia in which Slocan conducts its logging operations are viewed by interest groups and local residents as being environmentally sensitive areas to which road building and deactivation, harvesting and related activities can be potentially harmful or contrary to their interests. Although Slocan undertakes intensive planning

under applicable legislation and government land use strategies to ensure any adverse environmental effects are minimized and interested parties' concerns are appropriately addressed, Slocan is occasionally met with protests and activities of interest groups and residents designed to interfere with its activities. In recent years, these activities have on occasion involved road blockades in the Slocan Valley which necessitated that Slocan resort to legal proceedings to enforce its logging rights. Such situations can cause delays in access to timber and can increase costs.

A portion of the timber requirements for the Plateau and Quesnel Divisions originates from the extensive lodgepole pine forests of

west central British Columbia. An infestation of mountain pine beetles is currently sweeping through the area and in the



short to medium term is affecting the amount and quality of lodgepole pine timber available for both operations. Additional volumes of timber are being made available by the Ministry of Forests as all forest companies in the area attempt to control the attack. The Company's Quesnel Division was awarded a new forest licence effective January 2002 with an allowable annual cut (AAC) of 140,000 cubic metres and it is anticipated that more timber will be made available for the Plateau Division. The impact on the long-term timber supply is unknown at this time but it is expected that the available species mix and products from Slocan's mills in this region will change.

The Forest Practices Code ("Code") establishes mandatory requirements for forest practices in British Columbia, sets enforcement and penalty provisions and specifies independent audit requirements and appeal mechanisms. Contraventions of the Code can occur notwithstanding the planning and preventative measures undertaken by forest companies in British Columbia and remedial action and penalties can be imposed even in cases where a forest company is not negligent. Compliance with the Code initially increased operating costs and administrative requirements for companies such as Slocan and has resulted in delays in certain of its activities, both of which increase costs of operation.

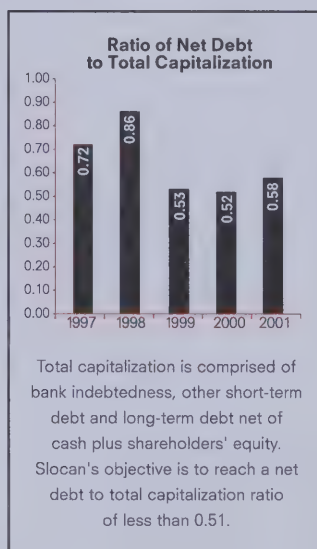
In addition to the requirements of the Code, the Chief Forester of the Ministry of Forests conducts periodic detailed reviews of the timber supply in each of the 37 Timber Supply Areas and 34 Tree Farm Licences in British Columbia to determine new levels of AAC to be in effect for specified 5-year periods. The Ministry of Forests has also lead a process to develop regional land use plans and strategies. There has been no material reduction in the availability of wood to Slocan in any of its operating areas as a result of these processes. The impact of these reviews on the combined AAC for all of the areas managed by Slocan was not significant and any shortfall in 2000 and 2001 was made up through purchases from outside sources. A land use plan for the Kootenay-Boundary region of the province, in which Slocan's Radium and Slocan operations are located, has been issued

by the government and took effect January 31, 2001. The plan reflects a combination of both economic and environmental objectives. The forestry-related elements of the plan are intended to be legally binding under the Forest Practices Code. Until the plan is fully implemented, it is not possible to conclude what impact the plan will have in this region, although it is expected to result in some reduction in the overall AAC in the region, and possibly in some reduction in Slocan's AAC. The government has indicated the overall reduction in AAC for this region will not exceed 10%.

Aboriginal groups have claimed aboriginal title and rights over substantial portions of British Columbia including areas where Slocan's forest tenures and operations are situated. Provincial government policy requires that forest management and operating plans take into account and not unjustifiably infringe on aboriginal rights and title, and provides for government consultation with aboriginal groups. Aboriginal groups have, at times, sought to restrict the Crown from granting or replacing forest tenures and other operating authorizations on lands claimed by them without their consent.

A decision of the Supreme Court of Canada in December 1997 confirming the continued existence of aboriginal title and rights in areas of British Columbia which are not subject to treaties has resulted in increased demands from aboriginal groups and increased uncertainties as to the status of competing property rights, including existing forestry and other resource rights granted by the government. A recent decision of the British Columbia Court of Appeal held that a private forest company shares the Crown's duty to consult with aboriginal groups about potential infringements of aboriginal rights or title. As a result, the process of obtaining government authorizations for its operations, including related consultations with aboriginal groups, is at times slowed. However, Slocan believes that cooperative arrangements, including employment opportunities and business relationships based on mutually

beneficial, sound economic principles, can facilitate these processes.



Outlook

The outlook for Slocan's operations in 2002 will continue to be challenging, as there is expected to be continued volatility in the pricing of its products and considerable uncertainty, particularly regarding any resolution of the current softwood lumber dispute with the United States and the cost of long term access for Slocan's products to the U.S. lumber market. For 2001, prices of all of the Company's products except plywood averaged lower than in 2000.

In the first quarter of 2002, North American lumber prices were trending higher, averaging approximately 8% above the average prices for 2001 and 39% above the average of the first quarter of 2001. Slocan expects lumber prices to continue to improve at least through the building season in North America in the first half of 2002.

Plywood and OSB prices in North America are also trending higher in the first quarter of 2002 as building activity picks up. In the first quarter of 2002, plywood and OSB prices averaged 11% and 4% higher respectively than the average prices for 2001.

Slocan expects that the demand for its lumber and panel products in Asian markets, particularly Japan, will increase in 2002. Wood chip prices are expected to remain flat in the first half of 2002 before improving in the latter part of the year with an anticipated increase in kraft pulp demand and price.

Costs of raw materials for the lumber operations in 2002 are expected to be about 4% lower than 2001 levels as a

result of decreased contracting and forestry costs due to increased productivity. Manufacturing costs of wood products on a per unit basis should be approximately 9% lower for 2002

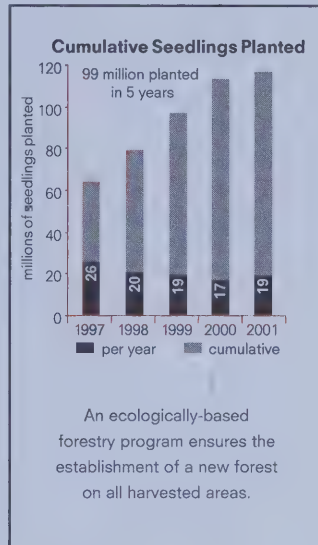
than those for 2001, since lumber productivity and recovery improvements are expected to more than offset any normal cost increases.

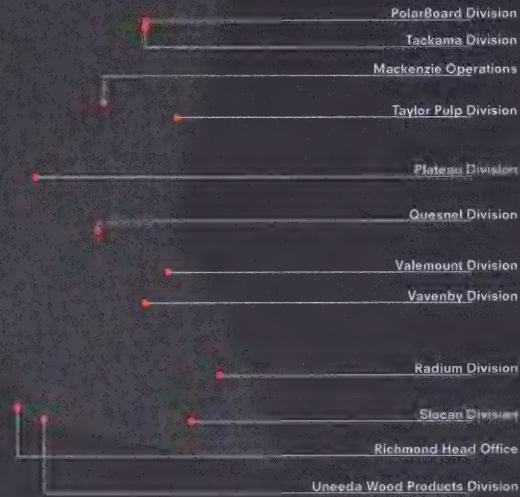
Slocan's operations have not been significantly affected by the increasing shortages of timber affecting North America generally, due in part to its past acquisitions and concentration on timber harvesting rights, as well as its success in obtaining complementary private supplies of timber. Slocan has been able to maintain its level of operations without interruption or reduction due to supply constraints in 2001 and no change is expected in 2002.

The weakened demand and prices for softwood and hardwood CTMP which further softened in the fourth quarter of

2001 are expected to remain flat in the first half of 2002 due to the excess inventories of pulp world-wide which built up in 2001. Demand and prices for market pulp are however expected to improve in the second half of 2002 over the market prices at the end of 2001 as the pulp inventories are reduced.

Slocan expects the average of the Canadian dollar to be about 1% weaker relative to the U.S. dollar during 2002 compared with 2001, which would have a positive impact on its earnings. In the first quarter of 2002, the average exchange rate of the Canadian dollar in U.S. dollars was approximately 3% lower than the average rate of \$1.5484 in 2001.





Lumber

10 sawmills

Annual production capacity:
1.65 billion board feet

Dimension lumber

Machine stress rated lumber

Studs

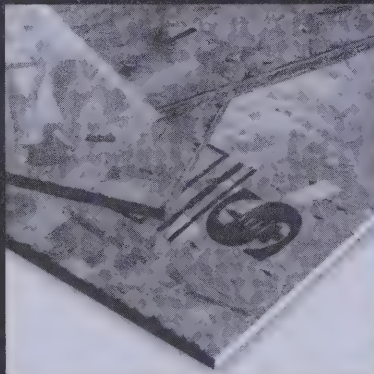
Finger-Jointed Studs

Boards

J-grade

Specialty lumber

Metric sizes



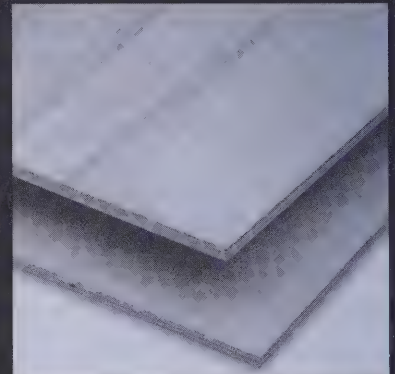
Oriented Strand Board

1 manufacturing facility

Annual production capacity:
510 million sq. ft. (3/8" basis)

Planned construction of a new OSB
facility

Annual production capacity:
700 million sq. ft. (3/8" basis)



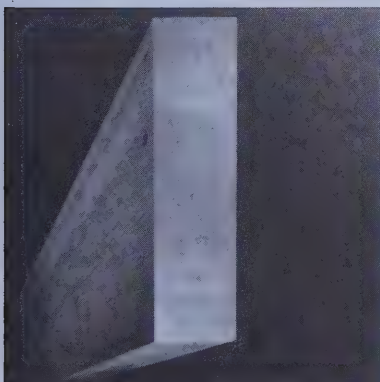
Plywood

1 manufacturing facility

Annual production capacity:
280 million sq. ft. (3/8" basis)

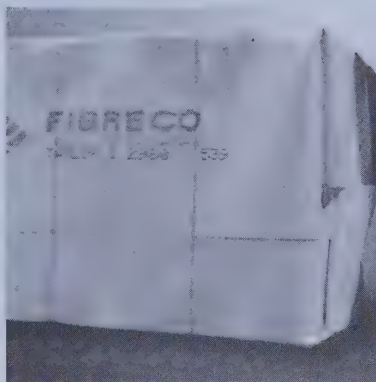
Industrial and specialty products

Slocan is one of Canada's largest producers of dimension lumber, laminated wood beams and wood chips and a significant producer of panel products and CTMP pulp. Almost 80% of the timber processed in its 10 sawmills, 1 plywood mill and 1 OSB plant are harvested from interior forestlands subject to long term forest tenure agreements with the provincial government. The environmental management system covering all forestlands managed by Slocan was registered to the internationally recognized certification standard ISO 14001 in 2001.



Value Added Lumber

1 manufacturing facility
Annual production capacity:
30 million fbm specialty lumber
20 million fbm finger jointed lumber
36 million fbm dry kiln capacity
35 thousand cubic metres laminated beams



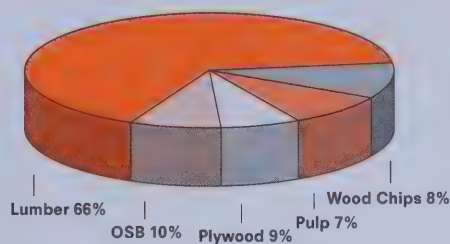
Pulp

1 manufacturing facility
Annual production capacity:
220,000 tonnes
Softwood and hardwood CTMP pulp



Wood Chips

Annual production capacity:
800,000 BDUs



2001 Revenue generated by each product group

Glossary	18	Pulp Manufacturing	28
The Company	19	Taylor Pulp Division	28
Business of the Company	20	Pulp Mill	28
Profile of Slocan	20	Fibre Supply	29
Timber Resources	20	Marketing and Distribution	29
Forest Tenures	20	Geographical Distribution of Pulp Sales	29
Aboriginal Issues and Relationships	22	Trends, Commitments, Events or Uncertainties	29
Forest Management	23	Competitive Position	29
Forest Certification	24	Other Investments	30
Stumpage Charges and Reforestation	24	Fibreco Export Inc.	30
Timber Harvesting	24	Forest Fibre Incorporated	30
Log Purchases	24	Accounting Treatment	30
Production Volume Summary	24	Human Resources	30
Lumber and Panel Manufacturing	25	Environment	30
Production Facilities	26	Credit Facilities	31
Tackama Division	26	Capital Expenditures and Investments	32
PolarBoard Division	26	Selected Consolidated Financial Information	32
Plateau Division	26	Quarterly Data	32
Quesnel Division	26	Dividends	33
Valemount Division	26	Share Capital	33
Vavenby Division	26	Market for Securities	33
Mackenzie Division	26	Directors and Officers	34
Radium Division	26	Additional Information	35
Slocan Division	26		
Unedda Wood Products Division	27		
Energy	27		
Lumber, Panel and Wood Chip			
Marketing and Distribution	27		
Lumber	27		
Countervailing and Anti-Dumping Duties	27		
Plywood	27		
Oriented Strand Board	27		
Wood Chips	28		
Wood Products Sales and Distribution	28		
Research and Development	28		



Annual Information Form

April 1, 2002

Certain terms used throughout this Annual Information Form are defined below:

"AAC" means allowable annual cut, the volume of timber which the holder of a tree farm licence, a forest licence or a timber sale licence may harvest under the licence in a given year;

"ADMt" means an air dried metric tonne of pulp with a moisture content of 10% or less;

"BDU" means a bone dry unit of oven-dried wood fibre, equivalent to 2,400 pounds;

"Common Shares" means any of the authorized common shares of the Company;

"Company" means Slocan Forest Products Ltd., a British Columbia company;

"CTMP" means chemi-thermo mechanical pulp, which is pulp produced from wood chips using heated mechanical and chemical (non-chlorine) processes to break bonds between wood fibres;

"Fibreco Export" means Fibreco Export Inc., a British Columbia company in which Slocan has approximately a 21% equity interest;

"Finlay" means Finlay Forest Industries Inc., a British Columbia company;

"J-grade" means high quality dimension lumber specifically graded for the Japanese 2x4 house construction industry;

"Louisiana-Pacific" means Louisiana-Pacific Canada Ltd., a British Columbia company;

"MFBM" means 1000 foot board measure, a standard measurement for lumber (one FBM = a board 1" thick x 1' wide x 1' long);

"MSR" means machine stress rated, a method of rating the strength of lumber for use in building applications such as engineered roof trusses;

"OSB" means oriented strand board, a wood panel board product used in the construction industry which is manufactured from rectangular wood flakes alternating in 90 degree directions for each layer of panel in order to provide additional strength to each sheet of product;

"Plateau" means Plateau Forest Products Ltd., a British Columbia company which is a wholly owned subsidiary of the Company;

"Pulp Mill" means the CTMP mill owned by Slocan located at the Taylor Pulp Division in Taylor, British Columbia;

"Right" means a Common Share purchase right issued pursuant to the Company's Shareholder Rights Plan;

"Senior Notes" means the U.S. dollar denominated senior notes issued by Slocan;

"Slocan" means the Company and its subsidiaries, and, unless the context otherwise requires, includes Slocan Group;

"Slocan Group" means the British Columbia general partnership comprised of the Company, Tackama and Plateau;

"SPF" means spruce, pine, fir, an industry standard grouping of tree species;

"Tackama" means Tackama Forest Products Ltd., a British Columbia company which is a wholly owned subsidiary of the Company.

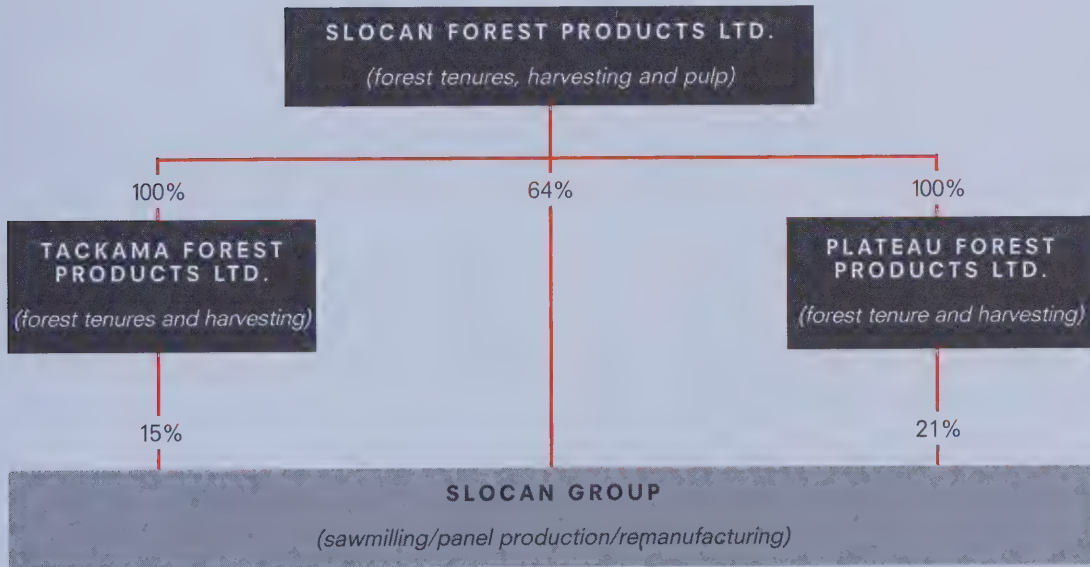
"TMP" means thermo mechanical pulp, which is pulp produced from wood chips using heated mechanical processes to break the bonds between the wood fibres.

THE COMPANY

The Company was incorporated on May 2, 1978, under the Company Act (British Columbia). Its principal and head offices are located at #240 - 10451 Shellbridge Way, Richmond, British Columbia, V6X 2W8. Its registered office is located at 1600 - 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2.

The chart below shows the Company's principal operating subsidiaries and the interests of the Company in Slocan Group,

as well as their primary products or activities. The percentages on the chart refer to the percentage of voting securities beneficially owned or over which control or direction is exercised by the Company (except for Slocan Group, where the percentages refer to the partnership interests held). Each of the companies shown below was incorporated under the Company Act (British Columbia). The agreement constituting Slocan Group is governed by the laws of British Columbia.



Indicates non-corporate entity.

In June 2000, Slocan established a joint venture corporation, Slocan-LP OSB Corp., with Louisiana-Pacific. The joint venture is owned equally by Slocan and Louisiana-Pacific and has been established to construct a new OSB plant in the Fort St. John area of British Columbia with an expected annual production

capacity of 700 million square feet of OSB on a 3/8 inch basis. (See "Lumber and Panel Manufacturing").

The Company also has other inactive subsidiaries as well as investments in certain other non-subsidiary corporations that are not shown on the chart above. See "Other Investments".

BUSINESS OF THE COMPANY

Profile of Slocan

Formed in 1978, Slocan is one of the largest forest products organizations in British Columbia, with timber resources and production facilities throughout the interior region of the Province and a remanufacturing facility near Vancouver. Slocan holds its timber resources under forest tenures granted by the Province of British Columbia. (See "Timber Resources").

Slocan presently owns and operates ten sawmills, a plywood facility, an OSB plant and a pulp mill. The combined total annual productive capacity of these facilities is approximately 1.65 billion board feet of lumber, 280 million square feet (3/8 inch basis) of plywood, 800,000 BDUs of wood chips, 510 million square feet (3/8" basis) of OSB and 220,000 ADMts of pulp. The Company also has a lumber remanufacturing and laminated beam facility in British Columbia which has an annual capacity to produce approximately 30 million board feet of specialty lumber and 20 million board feet of finger jointed lumber and to kiln dry approximately 36 million board feet of lumber. This facility is also able to produce approximately 35,000 cubic metres of laminated beams.

In June 2000, Slocan established a joint venture corporation, Slocan-LP OSB Corp., with Louisiana-Pacific. The joint venture is owned equally by Slocan and Louisiana-Pacific and has been established to construct a new OSB plant in the Fort St. John area of British Columbia. The plant is expected to have an annual production capacity of 700 million square feet of OSB on a 3/8 inch basis. Slocan-LP OSB Corp. has selected a site and obtained the required environmental and other permits and approvals to proceed with the construction and operation of the plant, including a project approval certificate under the Environmental Assessment Act (British Columbia). Timing for construction of the proposed OSB plant will be dependent on market conditions.

TIMBER RESOURCES

The timber supply for Slocan's sawmilling, OSB and plywood operations is obtained primarily by harvesting under forest tenures granted by the Province of British Columbia. Forest tenures presently held by Slocan provide for harvesting rights totalling approximately 5.1 million cubic metres of timber, including 610,000 cubic metres of timber Slocan has under a pulpwood agreement relating to its OSB plant. In addition, Slocan has the right to obtain timber sale licences to harvest up to 500,000 cubic metres of timber annually for use in connection with the proposed OSB plant to be constructed in the Fort St. John area by Slocan-LP OSB Corp. or for use in the Pulp Mill. (See "Pulp Manufacturing - Taylor Pulp Division - Fibre Supply".) Slocan also purchases timber for its operations, chiefly from operators under the British Columbia Small Business Forest Enterprise Program and private sources. See "Timber Resources - Log Purchases"

In 2001, Slocan obtained over 80% of the overall timber requirements for its facilities from its forest tenures. Total annual timber consumption by Slocan's operations in 2001 was approximately 6.7 million cubic metres (approximately 6.6 million cubic metres in 2000). The "Timber Resources" table shows the AAC and the actual cut by Slocan under its forest tenures as well as the volume of logs purchased by Slocan to supplement the timber supply for its operations for the last two years.

Forest Tenures

Approximately 95% of all timberlands in the Province of British Columbia are Crown lands. Subject to the British Columbia Forest Act and Forest Practices Code of British Columbia Act and related regulations, rights to harvest Crown timber may be granted on behalf of the Crown in the form of forest tenures. The forms of forest tenures held by Slocan are tree farm licences, forest licences and pulpwood agreements. Harvesting under these tenures is subject to the holder's compliance to the satisfaction of the Ministry of Forests with obligations regarding forest management, harvesting and reforestation.

A tree farm licence is an area-based forest tenure that is granted for a term of 25 years and is replaceable after five years if the term commenced after July 1, 1993, or 10 years, if the term commenced before July 1, 1993, for a further 25-year term, subject to satisfactory performance by the licensee of its harvesting and reforestation obligations. These licences are subject to the requirement to process harvested timber at one of Slocan's sawmills. The licensee

TIMBER RESOURCES

Thousands of cubic metres	2001	2000
Forest Tenures		
AAC		
Forest Licences	4,337	4,277
Tree Farm Licences	252	242
Pulpwood Agreements ⁽¹⁾	1,110	1,110
Total	5,699	5,629
Actual Cut⁽²⁾		
Forest Licences	4,719	4,359
Tree Farm Licences	144	228
Pulpwood Agreements ⁽¹⁾	295	521
Total	5,158	5,108
Purchases		
Total	1,516	1,469

Notes:

(1) Includes a pulpwood agreement granted in connection with the PolarBoard Division's OSB plant, under which Slocan has the right to obtain timber sale licences to harvest up to 610,000 cubic metres of deciduous timber annually for use at that facility. See "Lumber and Panel Manufacturing - PolarBoard Division". Also includes a pulpwood agreement relating to the construction of the OSB plant. Slocan has

the right to obtain timber sale licences to harvest up to 500,000 cubic metres of aspen and other deciduous timber annually for use in connection with the Pulp Mill or the proposed OSB plant to be constructed by Slocan-LP OSB Corp. in the Fort St. John area. See "Pulp Manufacturing - Taylor Pulp Division - Fibre Supply".

(2) All 2001 actual cut figures are estimates.

undertakes to manage the forestlands within the tree farm licence to produce an annual harvest in accordance with a management plan approved by the Ministry of Forests.

A forest licence is a volume-based forest tenure that authorizes the harvest of a specified volume of timber each year within a particular timber supply area. Forest licences have a term of 15 years and most are replaceable every five years for the next 15 years, subject to satisfactory performance by the licensee of its harvesting and reforestation obligations.

A pulpwood agreement grants its holder a right to obtain timber sale licences to harvest timber, up to a specified maximum annual volume, from timber stands within a particular pulpwood area. A pulpwood agreement requires the holder to construct, expand or continue to operate a timber processing facility. It also requires the holder to acquire suitable raw materials for the facility which are available at reasonable prices from other operations in a particular geographical area before it can obtain timber sale licences under the pulpwood agreement. The pulpwood agreements in both the Fort Nelson and the Fort St. John areas have 25 year terms, and are not replaceable.

The actual volume harvested under a tree farm licence and forest licence in any one year may vary up to 50% above or

below its AAC, and the volume harvested over a five-year period may vary within 10% of the total allowable harvest level for that five-year period. Overcuts at the end of the five years result in a reduction in the allowable harvest level in the next five year period and above 10% are subject to two times average stumpage in penalties. Undercuts of more than 10% in the five year period may result in a reduction of AAC. Relief from AAC reductions may be granted if an undercut has resulted from circumstances beyond the control of the licence holder. Undercuts in a 5 year cut control period may also be carried forward into the next 5 year period under some circumstances.

As required by the Forest Act, as of December 31, 1996, the provincial Chief Forester determined an AAC for each tree farm licence, and the Crown land in each timber supply area, in the Province. He is required to repeat such determinations every five years. The AAC reflects harvesting practices in the previous 5 years, the timber conditions, regional and local economic and social interests and environmental considerations for these licences and areas. The impact on Slocan of these determinations has not been material and is not expected to adversely affect its operations.

The Forest Act provides for a 5% reduction in the AAC upon change of ownership of a tree farm licence or replaceable forest licence or timber sale licence or a change in control of the holder of such a licence which is consented to or deemed to be consented to by the Minister of Forests. If such a change of ownership or change of control occurs without consent, the Minister may cancel the tenure without compensation or may deem consent to have been given and impose requirements and conditions. The Government of the Province of British Columbia has confirmed that tenure holders which implement certain job creation plans at their operations may be eligible for a reinstatement of this 5% reduction in AAC.

As a result of the softwood lumber dispute with the United States, there have been certain proposals to change certain aspects of the forest tenure system in British Columbia. At this time the nature of these changes and the impact on Slocan remain uncertain.

Aboriginal Issues and Relationships

Aboriginal groups have claimed aboriginal title and rights over substantial portions of British Columbia, including areas where Slocan's forest tenures and operations are situated. Provincial government policy requires that forest management and operating plans take into account and not unjustifiably infringe aboriginal rights or title and provides for consultation with aboriginal groups. Aboriginal groups have, at times, sought to restrict the Crown from granting or replacing forest tenures and other operating authorizations relating to tenures on lands claimed by them.

The Delgamuukw decision of the Supreme Court of Canada in December 1997, which confirmed the continued existence of aboriginal title and rights in areas of British Columbia which are not the subject of treaties, has resulted in increased demands from aboriginal groups. The decision has also resulted in uncertainty as to the status of competing property rights, including existing forestry and other resource rights and land uses. In February 2002, the British Columbia Court of Appeal extended the responsibility to consult with aboriginal groups about potential infringements of their aboriginal rights or title to a private forest company. These competing rights and related obligations imposed on third parties are not expected to be resolved or clarified in the near future. Pending resolution of these issues, either through court actions or negotiated treaties, Slocan expects that the process of obtaining government authorizations for its operations, and related consultations with aboriginal groups, may at times be affected. However, Slocan believes that cooperative arrangements, including employment opportunities and business relationships based on mutually beneficial and sound economic principles, can facilitate these processes.

In an effort to resolve outstanding aboriginal land claims within the Province, the governments of British Columbia and Canada have to date been engaged in a process of treaty negotiation with aboriginal groups. Some of these groups have withdrawn from negotiations since the Delgamuukw decision and commenced litigation to pursue their claims. None of this litigation has been commenced with respect to any of Slocan's operations.

A treaty has been completed between the Nisga'a Nation and the governments of Canada and British Columbia. It was ratified by the Nisga'a Nation, and legislation granting approval by the governments of Canada and British Columbia, and bringing the treaty into effect, was passed in early 2000.

The Nisga'a Treaty provides for the grant of fee simple title to a portion of the land within the traditional territory claimed by the aboriginal group and the payment of compensation. It also provides for the Nisga'a government to have defined law-making powers over its lands and its members.

It is the policy of the British Columbia government that lands held in fee simple by third parties will not be affected by treaty negotiations and that the Province will respect the terms of all legal interests in Crown lands and resources including leases and licences. However, where there are legal interests in Crown lands which, under a treaty, become treaty title lands, and where those legal interests have termination dates, or are subject to extensions or replacements, the Province will likely decline the grant of further interests, extensions or replacements, but will consider compensation. The Nisga'a Treaty contemplates that future rights and interests within the treaty title lands will be subject to negotiation with the Nisga'a government and to potential payment of fees, royalties and other charges to the Nisga'a government.

The Nisga'a Treaty does not cover lands on which Slocan has any operations or forest tenures. However, in north-eastern British Columbia, treaty negotiations are progressing between the Kaska Dene Council and the governments of Canada and British Columbia. Some of Slocan's operations and forest tenures in northern B.C. are located within the traditional territory claimed by the Kaska Dene Council. Slocan has been providing employment and business opportunities for the Kaska Dene in its woodlands and manufacturing operations for many years and since March 1998, Slocan and the Kaska Dene Council have been working together pursuant to a letter of intent to address mutual needs and interests. Slocan is optimistic that it can also develop this type of mutually beneficial arrangement with aboriginal groups in its other operating areas throughout the interior of the Province.

In 2001, Slocan, Louisiana-Pacific and Slocan-LP OSB Corp. entered into memoranda of agreements (the "MOA") with five of the First Nation signatories to Treaty 8 in northeastern British Columbia. The MOA relates to the conduct of forestry operations by Slocan and Louisiana-Pacific in the Dawson Creek and Fort St. John Forest Districts and the operation of the proposed OSB plant at Fort St. John. The MOA provide for a process of cooperative development and review of forestry plans for Slocan's and Louisiana-Pacific's tenures, as well as training and employment and contracting opportunities for First Nations members.

To date, neither the ongoing treaty negotiations nor aboriginal land claims have had a significant impact on Slocan's forestry operations or the grant or replacement of its forest tenures and other operating authorizations, and all of its operating divisions continue to work with local aboriginal groups on business and employment opportunities.

Forest Management

Slocan is responsible for forest management on Crown lands covered by its forest tenures.

Slocan's forest management activities on its tree farm licences are carried out in accordance with management plans that are submitted to the Ministry of Forests every five years and are subject to the Ministry's approval. These plans include proposed areas of harvesting, management objectives and strategies for meeting these objectives. Harvesting in any area is subject to Ministry of Forests approval of a forest development plan for the area.

Slocan carries out its forest management responsibilities through a staff of registered professional foresters and forestry technicians. Slocan's forestry staff supervises all aspects of forest management including Slocan's planning, road development, harvesting, reforestation and forest protection programs, as well as its programs to increase the yield of its forest lands and improve the quality of its timber resources.

To assist the Ministry of Forests in protecting forest resources, Slocan maintains a fire prevention and suppression organization at each of its divisions. Slocan and the Ministry of Forests undertake regular surveillance activities to detect and appraise the presence, extent and significance of any forest insect or disease outbreak in its forest tenures or areas of operation. Slocan, together with other British Columbia forest companies, is presently working with the Ministry of Forests to address the infestation of certain central interior forests in British Columbia by the mountain pine beetle. The Ministry and industry participants have been cooperating to identify

infested areas and to implement counter measures to reduce the impact of the infestation. The Provincial Government recently announced a strategic action plan to respond to the infestation. The plan includes the appointment of a beetle management coordinator and the establishment of emergency management zones that will allow faster harvesting of infested timber. Neither the pine beetle infestation nor any other forest insect or disease outbreak is currently creating any economically significant problems for Slocan. For further discussion of the pine beetle infestation, see the "Management's Discussion and Analysis of Financial Results – Risks and Uncertainties" section of this Annual Report for 2001, which is incorporated by reference herein.

The Forest Practices Code of British Columbia Act (the "Code") sets out a code of conduct for Crown forest tenures designed to protect fisheries, wildlife, biodiversity, cultural heritage, forest soils and special management zones. The Code also establishes detailed planning procedures and sets requirements for forest practices applicable to both licencees and the Crown. To encourage compliance with its provisions, the Code contains a system of penalties for contraventions, including AAC reductions. The severity of any penalty is dependent on the nature and frequency of contraventions. Contraventions can include violations by independent contractors performing work for licencees and may be determined by Crown authorities to have occurred notwithstanding appropriate efforts and reasonable "due diligence" on the part of the licencee.

Although a number of compliance issues arose for Slocan's forestry operations during 2001, none of these were material, and its operations were conducted in substantial compliance with the Code. Slocan did not experience any material increase in costs related to the Code in 2001. This was achieved largely due to the familiarity of Slocan's personnel with the requirements of the Code gained over the last few years as well as reductions by the government in the Code's administrative burdens on licencees.

In view of the extent of the problems and costs which the forest industry has incurred as a result of the Code's implementation, the provincial government, together with representatives of the forest industry, including Slocan, continues to consider further modifications to the Code to reduce the costs of compliance. Slocan is also continuing to participate in certain pilot projects, research projects and programs initiated by the B.C. government in the interior regions of the province. These projects and programs are designed to identify and implement on a trial basis alternative and more efficient means of managing forest resources but still provide resource protection equivalent to that contemplated by the Code.

Slocan has also entered into arrangements to develop and test new forest management techniques to aid in the management of the forest resource.

Forest Certification

Environmental awareness and concern about the sustainability of global forest management practices has led to the development of various registration and certification systems for the forest industry. Systems currently being applied in British Columbia include those developed by the International Organization for Standardization ("ISO"), Canadian Standards Association ("CSA"), the Forest Stewardship Council and the Sustainable Forestry Initiative.

Slocan's own forestry environmental management system covers all forestry activities, including road construction, harvesting and silviculture and stresses local accountability and responsibility for meeting all regulatory requirements. Local reviews are supplemented with regular audits involving outside consultants. Following an extensive independent audit of Slocan's forestry environmental management system by the Quality Management Institute, a division of the CSA, Slocan's system was registered under ISO 14001 in July, 2001. The ISO 14001 registration covers all of Slocan's interior forestry operations supplying timber to its 10 sawmills, its OSB plant and the Tackama plywood mill.

The Ministry of Forests has been developing a province-wide environment management system for the Small Business Forest Enterprise Program to meet ISO 14001 registration requirements. See "Timber Resources – Log Purchases". A portion of Slocan's fibre requirements is met through purchases from independent operations working under the Small Business Enterprise Program. Certification initiatives by the Ministry of Forests are not expected to have a material impact on wood supply from this source.

Stumpage Charges and Reforestation

Stumpage charges are assessed by the Province of British Columbia on Crown timber harvested under the various forms of forest tenure based on a pre-determined revenue target for the overall harvest in the Province. The stumpage charges are determined through an appraisal of each stand or area of trees that will be harvested.

In 2001, Slocan paid \$91.5 million (\$19.62 per cubic metre) in stumpage compared to \$111.4 million (\$24.36 per cubic metre) in 2000. In 2001, the Company's reforestation expenditures were \$19.9 million for areas logged during the year compared to \$17.8 million in 2000.

As a result of the softwood lumber dispute, there have been proposals to change certain aspects of the stumpage

system in British Columbia. The nature of these changes and the impact on Slocan remain uncertain.

Timber Harvesting

Timber harvesting (which includes road construction, logging, and log transportation to Slocan's facilities) is done almost exclusively by independent contractors under Slocan's supervision to ensure compliance with the terms of its forest tenures, its forest management policies, including its environmental management system, and the Code. The majority of these independent contractors have provided services to Slocan's operations for an extended period of time.

Log Purchases

Slocan supplements the supply of timber from its forest tenures by purchasing logs from operators under the Small Business Forest Enterprise Program and from other private sources. Under the Small Business Forest Enterprise Program, the Ministry of Forests makes certain volumes of timber available for harvesting each year by small operators, who generally sell the harvested timber to local sawmills. Timber cut by smaller operators in areas adjacent to Slocan's sawmills is often purchased by Slocan and used to supplement the timber supply available to those mills under its forest tenures.

PRODUCTION VOLUME SUMMARY

The volumes of products produced by Slocan's facilities for the last two years are set forth below.

Production Volumes⁽¹⁾

Years ended December 31	2001	2000
Lumber	1,383	1,385
Plywood	229	213
OSB	475	429
Pulp	156,200	184,741
Wood Chips	747,869	749,450

Notes:

(1) Figures for lumber are in millions of board feet; plywood and OSB production are in each case in millions of square feet on a 3/8 inch basis; wood chip production is in BDUs and pulp production is in tonnes.

Slocan's lumber and plywood operations generally operate two 8 hour shifts and two 12 hour shifts per day respectively and approximately 250 days per year. The PolarBoard Division's OSB plant and the Pulp Mill generally operate continuously 24 hours per day and approximately 335 days per year.

Sawmill production was curtailed at all mills during 2000 and 2001 due to quota constraints on shipments of lumber to the United States and lumber and plywood production was curtailed at all mills in 2000 and 2001 due to the oversupply of lumber and panel products in the North American market. See "Lumber, Panel and Wood Chip Marketing and Distribution - Countervailing and Anti-Dumping Duties".

LUMBER AND PANEL MANUFACTURING

Slocan presently owns and operates ten sawmills, one plywood facility and one OSB facility in the interior region of British Columbia. The total annual combined productive capacity of these facilities is approximately 1.65 billion board feet of lumber, 280 million square feet (3/8 inch basis) of plywood, 510 million square feet (3/8 inch basis) of OSB (which was increased from 440 million square feet as of August 2000) and approximately 800,000 BDUs of wood chips. Dry kilns and planing facilities are located at each of Slocan's sawmills, providing it with sufficient kiln and planing capacity to meet its production needs.

The majority of lumber produced by Slocan's mills is construction and specialty grade dimension lumber that ranges in size from one by three inches to two by twelve inches and in lengths from six to twenty-four feet. A growing portion of Slocan's lumber production is specialty products that command premium prices and includes MSR lumber that is used in engineering applications such as trusses and floor joists. Other specialty products include metric cuts and J-grade lumber for the Japanese market, precision cut components used in Japanese house construction, finger jointed lumber, furniture stock and extra long lengths.

In 1999, Slocan increased its annual plywood capacity to 280 million square feet (3/8 inch basis) through the addition of new veneer peeling technology as well as additional drying capacity at its Tackama plywood operations. The implementation of these improvements allows the Tackama facility to utilize its timber supply more effectively, allow seven day per week operation and enable it to better serve a wide range of world panel markets.

Slocan operates an OSB plant at Fort Nelson, British Columbia. In 2000, Slocan completed the expansion of the plant's capacity from approximately 440 to 510 million square feet (3/8 inch basis).

In June 2000, the Company formed a joint venture company, Slocan-LP OSB Corp., owned equally by Slocan and Louisiana-Pacific, to build a world class OSB plant in the Fort St. John area of British Columbia. The new plant will have an annual production capacity of approximately 700 million square feet on a 3/8 inch basis. Slocan will invest in the joint venture by way of equity and loans and expects to finance approximately 50% of its share of the project out of existing cash flows and resources with the balance from project financing. Each of Slocan and Louisiana-Pacific have agreed to provide the proposed OSB plant with access to timber resources from harvesting rights held by both Slocan and Louisiana-Pacific. In 2001, Slocan-LP OSB Corp. selected a site and, in early 2002, obtained the required environmental approvals for the plant. These approvals included a project approval certificate for the proposed OSB plant under the Environmental Assessment Act (British Columbia). Timing for construction of the proposed OSB plant, which is expected to cost approximately \$200 million to complete, will be dependent on market conditions.

Slocan also owns one of the largest custom remanufacturing facilities in the Province. Slocan's Uneeda Wood Products Division's facility provides custom remanufacturing and kiln drying for British Columbia forest companies. This operation has an annual capacity to produce approximately 20 million board feet of finger jointed lumber, to kiln dry approximately 36 million board feet of lumber, and remanufacture approximately 30 million board feet of lumber. In 2000, Slocan completed the construction of a laminated beam facility at the Uneeda Wood Products Division with an annual capacity of 35,000 cubic metres per year of laminated beams.

Slocan's practice is to strategically invest funds in its manufacturing facilities to increase operating capacity, increase lumber, chip and panel recovery, lower manufacturing costs and produce higher value products in order to efficiently utilize the forest resource available in each facility's area of operation. Over the past five years Slocan has invested a total of \$148 million in constructing, modernizing and improving its lumber and panel facilities. See "Capital Expenditures and Investments".

Production Facilities

The following is a summary description of each of Slocan's lumber and panel manufacturing facilities:

Tackama Division

The manufacturing complex at Fort Nelson consists of a plywood plant and sawmill. The Tackama operations utilize approximately 503,000 cubic metres of coniferous timber and 220,000 cubic metres of deciduous timber annually to produce industrial, commercial, residential and specialty plywood products. The plywood operation includes two green veneer lines feeding a modern plywood lay-up line. The sawmill is a stud mill with two small-log lines feeding a high-speed planer and an automatic lumber handling system. This mill produces studs for the domestic and export markets.

PolarBoard Division

Slocan's Fort Nelson OSB plant produces high quality wood panel products with a variety of thicknesses and sizes from aspen timber found throughout the northern region of the Province of British Columbia. This plant is unique in that it uses primarily pure aspen timber to produce a consistent high quality product – a feature shared by only a few OSB producers in North America. The product has gained a solid market share in North America and greater volumes are being sold into Asian markets as it is increasingly being recognized as a low cost alternative to plywood.

Plateau Division

The Plateau sawmill at Vanderhoof has three production lines. Plateau continues to be one of the most efficient dimension sawmills in the Province. The mill produces more than 300 million board feet of dimension lumber each year including MSR lumber and studs. A waste wood burning heat energy system, designed to reduce natural gas requirements by 90%, was installed in 2001 and early 2002.

Quesnel Division

Slocan has two sawmills at Quesnel. The dimension sawmill has two production lines producing both construction and specialty grades of lumber including MSR and J-grade lumber. The specialty mill has been designed to convert the region's small lodgepole pine into stud lumber and custom grades for Japan. It can produce more than 200 sizes of metric lumber for the Japanese pre-fabricated housing industry.

Valemount Division

Slocan's Valemount sawmill has two production lines to process the full range of log diameters from its interior wet-belt timber base. The sawmill can produce random length dimension lumber for the North American and Japanese markets. The mill is presently operating as a specialty mill producing J-grade lumber for export to Japan.

Vavenby Division

The Vavenby sawmill has three production lines – one for the larger diameter logs, while the other two are high speed lines for small logs. The sawmill produces random length lumber up to 24 feet (longer than lumber produced by most interior British Columbia sawmills) and has the flexibility to produce lumber for different market specifications in North America, Europe and Japan.

Mackenzie Division

Slocan's Mackenzie sawmill, which is one of the largest in North America, has five production lines, which produce lumber for the North American and Japanese home construction markets. The Mackenzie facility also contracts with nearby independent value-added companies to produce finger-joint studs as well as export and other higher-grade products. Under a long-term chip supply agreement, a local pulp mill purchases all the wood chips from Mackenzie's sawmills.

Radium Division

The Radium sawmill has two production lines producing dimension lumber for both the U.S. and Japanese house construction markets. Approximately 50 percent of the mill's production is higher value MSR and J-grade lumber. The mill has conventional small-log and large-log lines designed to process the range of log diameters harvested from its timber base.

Slocan Division

The Slocan sawmill has two production lines and has the flexibility to handle the wide variety of regional tree species from its timber base. A computer-optimized band head-rig extracts the maximum value out of larger, higher value logs while a chipping canter processes smaller timber into dimension lumber. In addition to the head-rig, the edgers and trim saws have also been computer optimized to maximize lumber recovery from each log.

Uneeda Wood Products Division

Slocan's Uneeda facility offers custom lumber remanufacturing and kiln drying services to a wide range of British Columbia lumber manufacturers. The operation consists of moulding and planer lines, a vertical twin band re-saw, various chopping and sorting equipment, two finger joint facilities and 12 dry kilns. A state of the art laminating facility can now produce laminated beams for export and domestic markets. A portion of the lumber from Slocan's sawmills is remanufactured into higher value products at Uneeda.

ENERGY

The energy requirements of Slocan's kiln drying facilities are supplied primarily by energy systems which use wood residue (45%) as well as propane gas and natural gas. During the last quarter of 2001 and early 2002, the Company spent approximately \$5 million for a wood waste heating system to provide heat for the Plateau Division's kilns, replacing natural gas.

LUMBER, PANEL AND WOOD CHIP MARKETING AND DISTRIBUTION

Lumber

Slocan sells its solid wood products into the United States, Canadian and Asian (principally Japanese) markets, on a delivered basis. The volume of each product produced is large enough to allow Slocan to negotiate favourable freight rates to destinations throughout North America.

Slocan has manufacturing facilities located on all four railways serving British Columbia. Each facility is also adjacent to major truck transportation routes. The location of the facilities in relation to origin reloads (reload yards served by truck from Slocan facilities) in both Canada and the United States also gives Slocan a variety of transportation options that are used to negotiate competitive advantages. The location of the Slocan mills in the central and northern regions of British Columbia enables production from these facilities to be shipped by rail to Eastern Canada and the United States. Slocan also transports products by rail to Vancouver docks for export by ship to offshore markets.

The proximity of the Slocan and Radium sawmills in the southern region of British Columbia to the United States border enables them to take advantage of lower American freight costs for shipments to the United States. Their locations also provide them with a competitive advantage for truck shipments of lumber products into the Canadian prairies and the midwestern United States.

In 2001, Slocan's shipments to the United States accounted for 70% of total lumber shipments (69% in 2000).

Countervailing and Anti-Dumping Duties

For a discussion of the countervailing and anti-dumping duties imposed on Slocan in connection with the softwood lumber dispute with the United States, see the "Significant Events" and "Risks and Uncertainties" sections of the "Management's Discussion and Analysis of Financial Results" section of this Annual Report for 2001, which is incorporated by reference herein.

Plywood

Plywood produced at the Tackama mill in Fort Nelson is sold to North American, Japanese and European markets. Products are shipped by truck or rail to domestic customers depending on their proximity to the mill and by ship to offshore customers. In 2001, approximately 86% (approximately 81% in 2000) of Slocan's plywood production was sold in Canada and the majority of it was shipped to Eastern Canada by rail. Approximately 61% of the plywood production for 2001 (approximately 61% in 2000) at the Tackama mill was sold to four principal customers.

Oriented Strand Board

Approximately 61% of Slocan's 2001 OSB production (approximately 77% in 2000) was sold in the United States. In 2001, approximately 35% (approximately 41% in 2000) of the OSB produced at Slocan's PolarBoard plant was sold pursuant to arrangements entered into with one major customer in the United States. The OSB is shipped primarily by rail to customers in North America and by ship to customers in Asian markets.

Wood Chips

Wood chips are a significant part of Slocan's production and revenue stream. The wood chips produced at Slocan's sawmills and plywood mill are sold to various domestic pulp mills and to Fibreco Export and are shipped by rail and by truck. In 2001, Slocan sold an aggregate of 747,869 BDUs of wood chips (749,750 BDUs in 2000) for total proceeds of approximately \$69.8 million (\$94.0 million in 2000).

Approximately 73% (82% in 2000) of Slocan's 2001 wood chip production was sold to four principal customers in British Columbia.

In February 1995, Slocan Group entered into a ten year wood fibre contract for the supply of hog fuel, sawdust and wood chips to Weyerhaeuser Canada Ltd. at current market prices that are adjusted quarterly. The wood chip volume is for an aggregate of 1.3 million BDUs over the term of the contract, which accounts for approximately 17% of Slocan's total annual chip production (17% in 2000).

Wood Products Sales and Distribution

The following table shows the distribution of sales revenues from Slocan's sawmills and panel facilities by major wood product and region for the last two years:

Years ended December 31		
(In thousands of dollars)	2001	2000
Lumber	\$ 577,505	\$553,352
Plywood and veneer ⁽¹⁾	74,975	69,331
OSB	83,952	100,076
Wood chips ⁽¹⁾	67,776	94,861
Total	\$ 804,208	\$817,620
United States	\$ 470,501	\$428,564
Canada	190,698	228,527
Asia	143,009	160,529
Total	\$ 804,208	\$817,620

Note:

(1) Includes wood chip sales to Fibreco Export and hog fuel and sawdust sales. See "Other investments – Fibreco Export Inc."

Research and Development

Slocan contributes to and participates in the industry-supported organizations Forintek Canada Corp. (wood products research) and the Forest Engineering Research Institute of Canada (harvesting and silviculture research). Slocan is also committed to development efforts in its operations, including continuing improvements in the areas of health and safety, product development, higher-value utilization of timber resources and market development.

PULP MANUFACTURING

Taylor Pulp Division

The Company owns and operates a CTMP pulp mill which comprises the Taylor Pulp Division operations.

Pulp Mill

The Pulp Mill's rated production capacity is 220,000 ADMts of pulp per year based on 24 hours per day and 348 operating days per year. In 2001, production was 156,200 ADMts as compared to 184,741 ADMts in 2000.

The mill has a two-line configuration with the capability to manufacture pulp products ranging from high brightness tissue and towelling grades to low brightness newsprint grades. Since mid-2000, the Pulp Mill has been able to produce high bright grades of aspen (hardwood) pulp (including grades of up to a brightness of 85% ISO) which at certain times commands premium prices relative to softwood grades.

The mill utilizes a CTMP process characterized by a highly efficient utilization of wood fibre and the use of hydrogen peroxide for bleaching. By comparison, the amounts of pulp produced or pulp yield from each unit of wood chips is approximately double that achieved through the kraft pulping process. The use of hydrogen peroxide for bleaching permits the total elimination of chlorine and chlorine compounds from the process. These two features are highly attractive in an increasingly environmentally conscious world market.

The mill is located at Taylor, British Columbia, which gives it access to a chip supply comprised of northern white spruce and aspen hardwood. These chips provide a high quality fibre for the production of both softwood and hardwood CTMP giving the mill's products greater flexibility in world markets. In addition, the mill's access to both species and production flexibility gives the mill the ability to develop new pulp applications for particular consumers.

During 1999, Slocan was successful with the assistance of the B.C. Job Protection Commission, in developing an economic plan which enabled Slocan to maintain operations at its Pulp Mill through a period of depressed conditions in the pulp industry. This plan involved the participation and co-operation of several parties in restructuring or deferring certain costs such as property taxes, rail transport and electricity. This included the deferral of \$9.3 million of energy costs based on a formula tied to pulp prices, chip prices and mill operating rates. Under the plan, energy costs in future years will be based on the prevailing price of pulp and mill operating rates, which may result in higher energy costs as pulp markets improve, and will continue until such higher costs equate to the cumulative benefit received through this deferral.

Fibre Supply

Slocan supplies all of the wood chips required for the Pulp Mill's operations. Slocan holds a pulpwood agreement which entitles Slocan to obtain timber sale licences to harvest up to 330,000 cubic metres of timber per year in connection with the proposed OSB plant to be constructed in the Fort St. John area by a joint venture company owned equally by Slocan and Louisiana-Pacific and the balance of 170,000 cubic metres per year in connection with the Pulp Mill.

Marketing and Distribution

Slocan directs the world-wide sales and marketing of all pulp produced by the Pulp Mill in conjunction with Ekman and Co. A.B. ("Ekman"), an international sales and marketing firm, under an exclusive agency agreement. Ekman has offices around the world serving major markets and is further represented by accredited sub-agents.

Ekman acts as exclusive agent for sales outside British Columbia of all pulp produced by the Pulp Mill. Ekman is engaged under an agreement which extends to May 31, 2005 and provides for the sale of approximately 200,000 ADMt per year with a variable commission rate based on prevailing pulp prices and achievement of certain targets and minimum quantities.

The Pulp Mill has developed a world-wide customer base. Although all sales by the Pulp Mill are on a current market price basis, a majority of the volume is sold to repeat customers. In 2001, approximately 49% (approximately 46% in 2000) of the total pulp production was sold to three customers. No other single customer accounted for more than 10% of the annual sales. Approximately 70% of the Pulp Mill's pulp was sold in 2001 to customers in Asia (approximately 72% in 2000).

The Pulp Mill is served by rail for chip delivery and product distribution. Rail networks connect the Pulp Mill to points in Canada and the United States. Domestic North American customers are served by direct rail or truck delivery, although only a minor amount of pulp is trucked due to high transportation costs. Pulp destined for offshore markets is transported by rail for loading onto deep-sea vessels, at Squamish and Vancouver, British Columbia.

Geographical Distribution of Pulp Sales

The following table shows total sales revenues of the Pulp Mill and the distribution of such revenues from pulp sales by the Pulp Mill by geographic region for the last two years:

Years ended December 31 (In thousands of dollars)	2001	2000
Asia	\$ 44,565	\$ 77,178
United States	1,374	2,040
Canada	239	2,386
Other Offshore Markets	17,317	26,639
Total Pulp Sales	\$ 63,495	\$108,243

TRENDS, COMMITMENTS, EVENTS OR UNCERTAINTIES

For a discussion regarding changes to Slocan's business expected in 2002 and known trends, commitments, events or uncertainties, see the "Significant Events", "Risks and Uncertainties" and "Outlook" sections of the Management's Discussion and Analysis of Financial Results" section of this Annual Report for 2001, which is incorporated by reference herein.

COMPETITIVE POSITION

Each of the markets in which Slocan sells lumber, panel and pulp products is highly competitive with many major firms in each market. Slocan's competitive position is influenced by the availability, quality and cost of its raw materials, energy and labour, and its plant efficiencies and productivity in relation to its competitors. Slocan, like the rest of the Canadian forest products industry, competes in an international market and is therefore subject to the impact of currency fluctuations and global business conditions. See "Lumber, Panel and Wood Chip Marketing and Distribution – Countervailing and Anti-Dumping Duties". Many of Slocan's lumber and panel products also compete with substitutes for wooden building materials of various kinds. As well as competing with other CTMP producers, the Pulp Mill's CTMP products compete with softwood bleached kraft pulp in the tissue markets and hardwood bleached kraft and recycled pulp in the printing paper markets.

OTHER INVESTMENTS

Fibreco Export Inc.

Fibreco Export is a wood chip exporting and marketing company owned by a number of sawmill companies that have operations in the interior of British Columbia. Fibreco Export was formed in 1977 for the purpose of exporting surplus wood chips produced by the owners' various sawmills. In 2000, Fibreco Export was restructured. As a result of the restructuring, Slocan directly holds a voting and equity interest of approximately 21% in Fibreco Export. Prior to the restructuring, Slocan held a 22% non-voting equity interest (4.2% voting).

In 2001, approximately 6.4% of wood chip sales were made to Fibreco Export (2.8% in 2000). Fibreco Export owns and operates a wood chip export facility in Vancouver harbour that has an annual capacity of between 900,000 and 1,000,000 BDUs. In 2001, throughput at the facility totalled 563,000 BDUs (628,000 BDUs in 2000).

Forest Fibre Incorporated

Slocan owns a 65% interest in Forest Fibre Incorporated, a British Columbia company, which purchases logs and operates a small portable whole log chipper, and acts as a reseller of logs, wood chips and other wood by-products.

Accounting Treatment

Slocan accounts for its investments in each of Fibreco Export and Forest Fibre Incorporated using the equity method. See Note 4 to the Consolidated Financial Statements of the Company.

HUMAN RESOURCES

Slocan employs approximately 2600 people (including all of the approximately 120 employees at the Pulp Mill), of whom approximately 1650 are covered by collective agreements with the IWA - CANADA and approximately 350 are covered by collective agreements with the Pulp, Paper and Woodworkers of Canada ("PPWC"). The collective agreements with the IWA and the PPWC were renewed for three-year terms that expire on June 30, 2003.

Slocan has not experienced any strikes since the industry-wide strike by the IWA in 1986, except for a six-week strike at the Uneeda Wood Products Division in 1997. The collective agreement with the IWA covering Uneeda was renewed for a 3 year term expiring Feb. 1, 2003. All of the employees at the Pulp Mill and the PolarBoard Division are non-union. In addition, approximately 1,600 people employed by independent contractors, including truckers, perform services for Slocan on a regular basis.

The Company's senior management currently consists of eight executive officers, all of whom are located at the head office in Richmond, British Columbia. The Company manages the operations of Slocan Group and the Pulp Mill and its senior management is supported by divisional managers located at Slocan's operations throughout British Columbia and at the Pulp Mill. Slocan's management philosophy emphasizes short lines of communication to allow efficient decision-making.

ENVIRONMENT

Throughout 2001, Slocan's lumber, plywood, OSB, pulp and remanufacturing facilities were in substantial compliance with existing applicable environmental regulations. Slocan's personnel engage in a regular dialogue with regulatory agencies to address any environmental issues that may arise from time to time.

During 2000, Slocan modified certain of its facilities and particularly its beehive burners at various locations to reduce air emissions and are continuing to work to bring them into compliance with current environmental regulations in British Columbia. In December 2000, at a cost of approximately \$1.2 million, Slocan completed the modifications to its wood waste burner at its Slocan Division in Slocan, British Columbia.

In its use of forest resources, Slocan's management is committed to fulfilling its obligations to the public and the communities in which it operates and to complying with federal and provincial regulations and its own environmental protection procedures.

Every month, the Pulp Mill submits reports in accordance with the effluent permits issued to it by the Waste Management Branch to the British Columbia Ministry of Environment, Lands and Parks, Waste Management Branch and to Environment Canada. These reports cover all the terms and conditions of the effluent permits issued by the Waste Management Branch.

As a result of not using chlorine or any chlorine compounds in its bleaching process, the Pulp Mill is not directly impacted by the more stringent regulations that have in recent years been announced in British Columbia for organic chloride levels. However, the mill is affected by legislation of the Government of Canada with respect to total suspended solids, and the mill is currently substantially in compliance with these requirements.

Provincial legislation governing contaminated sites came into effect on April 1, 1997. If a particular site exceeds prescribed levels of certain classes of substances, the site is considered to be a “contaminated site” under the legislation. If a site is determined to be contaminated, remediation may be required under government supervision. As current and past owners of mill sites, all forest products companies in British Columbia may be liable for remediation costs. Slocan does not expect any material impact on its operations in complying with this legislation.

CREDIT FACILITIES

As of April 1, 2002, Slocan had a principal amount of US \$240 million outstanding under Senior Notes and no term bank debt. The Senior Notes outstanding and the applicable interest rates and maturities are as follows: US \$50 million at 8.32%, due October 24, 2003; US \$60 million at 8.49%, due October 24, 2005; US \$30 million at 8.49%, due January 24, 2006; and US \$100 million at 8.63%, due October 24, 2007. The interest rates were reduced by 0.50% to these stated rates, effective October 1, 2000, after six consecutive quarters of compliance with certain leverage and interest coverage ratios.

Slocan also has a bank operating credit facility of \$120 million committed for a three year term which matures August 29, 2002. Both this operating credit facility and the Senior Notes are secured by security interests over substantially all of Slocan’s assets. The terms of Slocan’s debt agreements contain restrictions on the granting of further security, the incurrence of additional debt, the application of proceeds from certain sales of assets and the payment of dividends and other distributions or investments.

The Senior Notes may be prepaid by Slocan at any time. If the yield on US Treasury obligations of comparable maturity at the time of prepayment plus 50 basis points (the “Formula Yield”) is less than the original interest rates on the Senior Notes, the prepayment amount must include a “make-whole” premium which would compensate the holders for the present value of the difference between that original interest rate on the Senior Notes which are prepaid and the Formula Yield.

Slocan may be required to offer to prepay the Senior Notes, if:

- (a) either (i) any person or persons acting jointly or in concert shall own, in the aggregate, directly or indirectly, a majority of the voting power of the voting stock of the Company; or (ii) within any two year period, the Directors constituting the Board, including persons elected with the approval of at least 2/3 of the elected Board members, cease to constitute a majority of the Board for reasons other than ordinary course resignation or retirement, death or disability (in each case, a “Change in Control”); and
- (b) after the Change in Control, the Senior Notes do not receive an “investment grade” rating from a nationally recognized rating agency.

After a Change in Control, any such offer to prepay Senior Notes must be made at par plus accrued interest plus, if applicable, a “make-whole” premium, calculated as outlined above. The Senior Notes received an investment grade rating of BBB at the time of issue.

CAPITAL EXPENDITURES AND INVESTMENTS

Years ended December 31 (in thousands of dollars)	2001	2000	1999	1998	1997
Acquisitions ⁽¹⁾	\$ -	\$ -	\$ -	\$ 1,935	\$ 186,262
Mill construction and improvements ⁽²⁾	13,038	52,920	\$ 21,078	10,255	50,799
Roads, bridges, timber and lands	18,369	17,792	16,714	12,902	25,215
Total	\$ 31,407	\$ 70,712	\$ 37,792	\$ 25,092	\$ 262,276

Notes:

(1) The Company acquired the Mackenzie Division in 1997 and Fibreco Export's 20% interest in the Pulp Mill in 1998.

(2) Includes expenditures and improvements at the Pulp Mill and Slocan's proportionate share of expenditures and improvements relating to the integrated pulp and paper operations of Finlay until August 4, 1999, as well as construction of the OSB plant at Fort Nelson, British Columbia.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Years ended December 31 ^{(1) (2)}	2001	2000	1999	1998	1997
Net sales	\$ 867.7	\$ 925.9	\$ 1,085.8	\$ 936.2	\$ 945.9
Net earnings (loss)	(6.8)	61.2	108.4	(157.8) ⁽⁶⁾	2.1
Total assets	839.7	874.0	788.6	906.9	1,254.4
Total long-term debt ^{(5) (4) (5)}	381.6	361.8	350.1	572.3	564.8
Net earnings (loss) per Common Share (Basic)	(0.19)	1.62	2.84	(4.14) ⁽⁶⁾	0.06
(Diluted)	(0.19)	1.59	2.80 ⁽⁷⁾	-	0.06 ⁽⁷⁾

Notes:

(1) All figures expressed in millions of dollars except per share amounts.

(2) Includes Slocan's 49.9% proportionate share of results, assets and proportionate consolidation of indebtedness relating to the Finlay operation until August 4, 1999 and Slocan's 86% proportionate share of sales revenues relating to the Pulp Mill (which was then owned on a joint venture basis between the Company as to 80% and Fibreco Export as to 20%) until December 31, 1998, and 100% thereafter.

(3) Includes current portion of long term debt, limited recourse debt and capital lease obligations in all years.

(4) For the financial year ending December 31, 1998, long term debt of \$502.2 million was reclassified as current liabilities due to non-compliance by Slocan of certain financial ratios under its Senior Notes and term debt facility pending renegotiation of amended terms of this indebtedness with its lenders. As a result of the completion of these renegotiations in August 1999, US \$87.5 million was repaid and \$346.4 million of current liabilities was reclassified as long-term debt for the financial year ending December 31, 1999.

(5) In 2001, Slocan also accrued contingent liabilities of \$22.3 million in respect of countervailing duties and \$3.2 million in respect of anti-dumping duties as a result of the softwood lumber dispute between Canada and the United States. See also "Slocan's Consolidated Financial Statements" included with this Annual Report for 2001.

(6) Includes unusual write downs of \$182.6 million (\$125.1 million after-tax or \$3.28 per share) for impairment of the Pulp Mill's and Valemount Division's property, plant and equipment, and the write down of deferred foreign exchange losses on settlement of debt.

(7) Restated to reflect changes in accounting standards.

For a discussion of the factors affecting the comparability of the data set out above and a discussion of trends in financial condition and results of operations, see the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this Annual Report, which is incorporated by reference herein.

QUARTERLY DATA

For the Three Months Ended (unaudited) ⁽¹⁾	2001				2000			
	Mar 31	June 30	Sept 30	Dec 31	Mar 31	June 30	Sept 30	Dec 31
Net sales	\$201.3	\$251.2	\$210.9	\$204.3	\$268.9	\$229.3	\$215.4	\$212.3
Net earnings (loss)	(4.3)	9.5	4.0	(16.1)	31.8	20.6	1.6	7.2
Net earnings (loss) per Common Share (Basic)	(0.12)	0.26	0.11	(0.44)	0.84	0.54	0.04	0.20
(Diluted)	(0.12)	0.26	0.11	(0.44)	0.82	0.53	0.04	0.19

Note:

(1) All figures expressed in millions of dollars except per share amounts.

DIVIDENDS

The declaration and payment of dividends are at the discretion of the Company's directors and subject to continuing compliance with the requirements of the Company's financing agreements. The Company's dividend policy is to pay regular quarterly dividends, at a rate that can be sustained over a range of economic conditions and the Company may pay extra dividends in years of unusually high earnings. Slocan was restricted under its Senior Notes and bank agreements from paying dividends during a certain period of 1998 and 1999 and recommenced the payment of quarterly dividends in the fourth quarter of 1999. In light of the weak markets for most of the Company's products and economic and other uncertainties, the Board of Directors decided not to pay a dividend in the fourth quarter of 2001.

In each of the years set forth below, ending on December 31 in each year, the Company declared and paid cash dividends per Common Share as shown.

2001	2000	1999	1998	1997
\$0.375	\$ 0.50 ⁽¹⁾	\$ 0.075	\$ 0.00	\$ 0.30

Note:

(1) In addition to the regular quarterly dividend of \$0.075 per share, a Special Extra Dividend of \$0.10 per share was paid on each of May 24, 2000 and August 9, 2000.

SHARE CAPITAL

After giving effect to subdivisions in May 1990 and 1994, the Company had an authorized capital of 80,000,000 Common Shares and 10,000,000 Preferred shares. The special rights and restrictions attached to the Preferred shares were altered at the time of the 1990 subdivision to allow the directors of the company to fix the number and designation of each series of Preferred shares and, subject to certain limitations, define the special rights and restrictions attached to, each such series.

On February 28, 1995, the Company completed a substantial issuer bid for up to 8,000,000 Common Shares. The 8,000,000 repurchased Common Shares were cancelled and returned to the status of authorized but unissued shares.

On November 10, 1995, the Board of Directors adopted a Shareholder Rights Plan that was subsequently approved by the shareholders. Under the Plan, the directors approved the issue of one Right for each Common Share outstanding on that date. The Plan was approved by the shareholders of the Company at its annual general meeting held on April 26, 1997. The Plan was extended for a further three year term by a majority of Slocan's shareholders at its annual general meeting in June 1999 and expires by its terms on June 25, 2002.

An additional Right will be issued for each Common Share issued thereafter, so long as the Rights remain outstanding. A Right becomes exercisable only after the occurrence of certain specified events. Generally, if a person acquires or offers to acquire 20% or more of the Common Shares, a Right will become exercisable and will entitle the holder of the Right (other than the acquiring person) to purchase an additional Common Share at a 50% discount from the then prevailing market price.

A Right is not triggered by a "permitted bid," which is a takeover bid made to all shareholders by way of takeover bid circular that complies with certain specified requirements. Such a bid must remain outstanding for 60 days unless the holders of more than 50% of the Common Shares held by shareholders independent of the bidder accept the bid or indicate to the Board of Directors that they support the bid. The Board of Directors may waive the application of the Shareholders Rights Plan or redeem the Rights at a nominal cost, in specified circumstances.

Persuant to a normal course issuer bid between July and December 2000, the Company completed the purchase of 1,910,000 Common Shares at an average price of \$8.48 per share.

As at April 1, 2002 there were 36,913,796 Common Shares issued and outstanding. No preferred shares have been issued.

MARKET FOR SECURITIES

The Common Shares are listed on The Toronto Stock Exchange and trade under the symbol SFF.

Each of the persons whose name appears below is currently a director or officer of the Company. Each director holds office from the date of his election or appointment until the next Annual General Meeting of the Company or until he sooner ceases to hold office.

Name, Office Held and Municipality of Residence	Present Principal Occupation	Director Since
Irving K. Barber ⁽²⁾ Director Delta, B.C.	Former Chairman of the Company and President of Slocan - LP OSB Corp.	1978
Stephen T. Bellringer ⁽¹⁾⁽³⁾ Director Vancouver, B.C.	Chairman of Anthem Properties Corp. (real estate investment and property management)	1998
Kenneth P. Benson ⁽¹⁾⁽²⁾ Director Vancouver, B.C.	Retired (forestry executive)	1998
William J. Corcoran ⁽³⁾ Director Kleinburg, Ontario	Vice Chairman of Jarislowsky Fraser Limited (investment manager)	2001
Stephen A. Jarislowsky ⁽²⁾ Director Westmount Quebec	Chairman and Chief Executive Officer of Jarislowsky Fraser Limited (investment manager)	2000
Michael J. Korenberg ⁽¹⁾ Director North Vancouver, B.C.	Managing Director, Vice Chairman of the Jim Pattison Group (diversified businesses)	2001
Brandt C. Louie Director West Vancouver, B.C.	President of H. Y. Louie Co. Limited (food distribution)	1994
James A. Pattison Director Vancouver, B.C.	President, Managing Director, Chief Executive Officer & Chairman of The Jim Pattison Group (diversified businesses)	2001
James A. Shepherd President, Chief Executive Officer and a Director Surrey, B.C.	Officer of the Company	1999
John Weatherall Director Toronto, Ont.	President of Scarthingmoor Asset Management Inc. (Investment Consultant)	1991
James I. Barber Vice President, Operations Surrey, B.C.	Officer of the Company	N/A
Donald B. Clutterham Vice-President, Business Development Surrey, B.C.	Officer of the Company	N/A
Terry D. Hodgins Vice-President and Financial Officer West Vancouver, B.C.	Officer of the Company	N/A
Julius J. Juhasz Vice-President, Forest Resources Victoria, B.C.	Officer of the Company	N/A
Micheal G. Madrigga Senior Vice-President, Operations Delta, B.C.	Officer of the Company	N/A
Ronald D. Price Senior Vice-President, Chief Financial Officer and Secretary West Vancouver, B.C.	Officer of the Company	N/A
E. Terrence Upgaard Vice-President, Sales and Marketing West Vancouver, B.C.	Officer of the Company	N/A

Notes:

(1) Member of the audit committee.

(2) Member of the human resources and compensation committee.

(3) Member of the nominating and governance committee.

As to those officers who have held more than one position with the Company during the last five years, their previous positions were as follows: James A. Shepherd was President and Chief Operating Officer; Micheal G. Madriga was Senior Vice-President, Corporate Development and prior to that Vice-President and Regional Manager-Operations; James I. Barber was Vice-President and Regional Manager – Operations; and Donald B. Clutterham was Vice-President and Regional Manager – Operations and prior to that Vice-President of Northern Operations.

The principal occupations of each of the directors of the Company for the five preceding years have been as shown above except for: Irving K. Barber, who prior to February 2002 was Chairman of the Company and prior to July 2000 was Chairman and Chief Executive Officer of the Company; Stephen T. Bellringer, who prior to September 1997 was President of B.C. Gas Inc., prior to December 1999 was Chief Executive Officer of Orca Bay Sports and Entertainment, and prior to March 1, 2002 was President and Chief Executive Officer of Canadian Hotel Income Properties; William J. Corcoran, who prior to December 31, 2000 was Vice Chairman of the Ontario Pension Board; and James A. Shepherd, who prior to February 1999, was President and Chief Operating Officer of Crestbrook Forest Industries Ltd. and President of Finlay Forest Industries Limited and prior to July 2000 was President and Chief Operating Officer of the Company.

As of April 1, 2002, the directors and senior officers of the Company, as a group, beneficially owned directly or indirectly or exercised control or direction over 12,863,012 Common Shares (34.8%).

ADDITIONAL INFORMATION

Reference is made to the sections of this Annual Report for 2001 entitled “Management’s Discussion and Analysis of Financial Results” and “Consolidated Financial Statements” that are by this reference incorporated herein.

Additional information, including directors’ and officers’ remuneration and indebtedness, principal holders of the Company’s securities, options to purchase securities and interests of insiders in material transactions, is contained in the Information Circular for the Annual General Meeting of the Company held on June 22, 2001 and is contained in the Information Circular for the Annual General Meeting to be held May 24, 2002. Additional financial information is provided in the Company’s comparative financial statements and management’s discussion and analysis for the year ended

December 31, 2001, which are contained in this Annual Report for 2001.

In addition, the Company will provide to any person, upon request to the Secretary:

- (a) when the Company’s securities are in the course of a distribution under a preliminary short form prospectus or a short form prospectus that has been filed in respect of such distribution:
- (i) one copy of this Annual Information Form together with a copy of any document, or the pertinent pages of any document, incorporated by reference in this Annual Information Form;
- (ii) one copy of the Company’s comparative financial statements for the year ended December 31, 2001, together with the accompanying report of the auditor and one copy of any interim financial statements of the Company that have been filed subsequent to December 31, 2001;
- (iii) one copy of the Company’s Information Circular in respect of its most recent annual general meeting of shareholders that involved the election of directors or one copy of any annual filing prepared instead of that information circular, as appropriate; and
- (iv) one copy of any other documents that are incorporated by reference into the preliminary short form prospectus or the short form prospectus and are not required to be provided under (i), (ii) or (iii) above; or
- (b) at any other time, one copy of any other documents referred to in (a)(i), (ii) or (iii) above, provided that the Company may require the payment of a reasonable charge if the request is made by a person who is not a security holder of the Company.

(in thousands of dollars)

except per share amounts)

	2001	2000	1999	1998	1997
Consolidated Statement of Earnings					
Sales	\$ 867,703	\$ 925,863	\$ 1,085,813	\$ 936,232	\$ 945,931
Costs and Expenses					
Cost of products sold	741,304	715,615	774,479	819,903	801,087
Depreciation and amortization	55,285	56,971	56,171	69,766	68,110
Selling and administration	29,029	25,592	24,584	32,710	28,687
	825,618	798,178	855,234	922,379	897,884
Earnings from Operations before U.S. duties	42,085	127,685	230,579	13,853	48,047
Countervailing and anti-dumping duty provision	25,957	-	-	-	-
Earnings from operations	16,128	127,685	230,579	13,853	48,047
Interest	(35,303)	(27,382)	(45,500)	(64,562)	(45,895)
Loss on sale of investment in Finlay	-	-	(11,009)	-	-
Foreign exchange gain on US \$ debt	-	-	10,299	-	-
Write off of deferred changes	-	-	(634)	(49,090)	-
Asset write downs	-	-	-	(133,500)	-
Earnings (loss) before income taxes	(19,175)	100,303	183,735	(233,299)	2,152
Income Tax Expense (recovery)					
Current	13,616	58,858	3,946	1,050	16,449
Future	(25,831)	(19,585)	71,472	(75,127)	(14,742)
	(12,215)	39,273	75,418	(74,077)	1,707
Earnings (loss) before equity in earnings (loss) of affiliates and non-controlling interest	(6,960)	61,030	108,317	(159,222)	445
Equity in earnings (loss) of affiliates	151	173	100	(326)	21
Non-controlling interest	-	-	-	1,733	1,645
Net Earnings (loss)	(6,809)	\$ 61,203	\$ 108,417	\$ (157,815)	\$ 2,111
Net earnings (loss) per common share –					
Basic	\$ (0.19)	\$ 1.62	\$ 2.84	\$ (4.14)	\$ 0.06
Diluted ⁽¹⁾	\$ (0.19)	\$ 1.59	\$ 2.80 ⁽¹⁾	\$ -	\$ 0.06

(1) Restated to reflect change in accounting standard



Consolidated Financial Statements

December 31, 2001 and 2000

(in thousands of dollars)

February 11, 2002

AUDITORS' REPORT

To the Shareholders of Slocan Forest Products Ltd.

We have audited the consolidated balance sheets of Slocan Forest Products Ltd. as at December 31, 2001 and 2000 and the consolidated statements of earnings, retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied, after giving effect to the change in accounting policies described in note 2 to the consolidated financial statements, on a consistent basis.

RESPONSIBILITY OF MANAGEMENT

The management of Slocan Forest Products Ltd. is responsible for the preparation as well as the integrity of the accompanying consolidated financial statements and all related financial data contained in the Annual Statutory Report. The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada, and necessarily include amounts which represent the best estimates and judgements of management. The Company has developed and maintains a system of internal accounting control designed to provide reasonable assurance that assets are safe-guarded and that transactions are executed in accordance with management's authorizations.

The consolidated financial statements have been examined by the Company's auditors, PricewaterhouseCoopers LLP, and they have issued their report thereon.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises its responsibilities through the Audit Committee comprised of three Directors, none of whom are officers or employees of the Company. The Committee meets from time to time with management and the Company's auditors to review the financial statements and matters relating to the audit. The Company's auditors have full and free access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for issuance to the shareholders.



PricewaterhouseCoopers LLP
Chartered Accountants

Vancouver, BC
February 11, 2002,
except for note 11 which is at March 22, 2002



J. A. Shepherd
President and
Chief Executive Officer

Vancouver, BC
February 11, 2002



R.D. Price
Senior Vice-President, Chief
Financial Officer and Secretary

CONSOLIDATED BALANCE SHEETS

As at December 31, 2001 and 2000 (in thousands of dollars)	2001	2000
Assets		
Current assets		
Cash and term deposits	\$ 87,853	\$ 112,772
Accounts receivable	70,046	64,039
Inventories (note 3)	187,358	196,737
Prepaid expenses	10,072	8,784
	355,329	382,332
Investments and other assets (note 4)	9,835	11,752
Property, plant and equipment (note 5)	441,840	465,951
Deferred charges (note 6)	32,605	13,948
	\$ 839,609	\$ 873,983
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 123,657	\$ 125,523
Current income taxes payable	400	34,061
Future income taxes payable (note 13)	9,544	28,450
Current portion of long-term debt (note 8)	-	1,918
	133,601	189,952
Contingent liability (note 11)	25,957	-
Reforestation obligation (note 7)	4,462	4,366
Long-term debt (note 8)	381,648	359,880
Future income taxes (note 13)	79,830	86,755
	625,498	640,953
Shareholders' Equity		
Capital stock (note 9)	178,046	176,393
Retained earnings	36,065	56,637
	214,111	233,030
	\$ 839,609	\$ 873,983

Commitments and contingent liability (note 10)

Contingent liability and subsequent events (note 11)

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended December 31, 2001 and 2000 (in thousands of dollars)	2001	2000
Retained earnings - Beginning of year	\$ 56,637	\$ 23,186
Net earnings (loss) for the year	(6,809)	61,203
	49,828	84,389
Dividends	(13,763)	(19,074)
Change in accounting for income taxes (note 2)	-	(1,663)
Premium on share repurchase (note 9)	-	(7,015)
Retained earnings - End of year	\$ 36,065	\$ 56,637

CONSOLIDATED STATEMENTS OF EARNINGS

For the years ended December 31, 2001 and 2000 (in thousands of dollars, except for per share amounts)	2001	2000
Sales	\$ 867,703	\$ 925,863
Costs and expenses		
Cost of products sold	741,304	715,615
Depreciation and amortization	55,285	56,971
Selling and administration	29,029	25,592
	825,618	798,178
Earnings from operations before U.S. duties	42,085	127,685
Countervailing and anti-dumping duty provision (note 11)	25,957	-
Earnings from operations	16,128	127,685
Interest expense (income)		
Short-term debt	1,923	1,134
Short-term investments	(3,332)	(8,702)
Long-term debt	36,712	34,950
	35,303	27,382
Earnings (loss) before income taxes	(19,175)	100,303
Income tax expense (recovery) (note 13)		
Current	13,616	58,858
Future	(25,831)	(19,585)
	(12,215)	39,273
Earnings (loss) before equity in earnings of affiliates	(6,960)	61,030
Equity in earnings of affiliates	151	173
Net earnings (loss) for the year	\$ (6,809)	\$ 61,203
Net earnings (loss) per common share (note 14)		
Basic	\$ (0.19)	\$ 1.62
Diluted	\$ (0.19)	\$ 1.59

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2001 and 2000 (in thousands of dollars)	2001	2000
Cash flows from operating activities		
Net earnings (loss) for the year	\$ (6,809)	\$ 61,203
Items not affecting cash		
Depreciation and amortization	55,285	56,971
Amortization of deferred foreign exchange loss	4,080	89
Countervailing and anti-dumping duty provision (note 11)	25,957	-
Reforestation expense	19,054	16,929
Future income taxes	(25,831)	(19,585)
Other	(128)	(5,790)
	71,608	109,817
Reforestation expenditures	(19,860)	(17,812)
Change in non-cash working capital items (note 16)	(32,541)	12,755
	19,207	104,760
Cash flows from investing activities		
Additions to property, plant and equipment	(31,407)	(70,712)
Proceeds from disposal of property, plant and equipment	202	2,188
Investments and other assets - net	1,107	(4,434)
	(30,098)	(72,958)
Cash flows from financing activities		
Repayment of long-term debt	(1,918)	(1,825)
Issue of common shares	1,653	707
Share buy back	-	(16,246)
Dividends	(13,763)	(19,074)
	(14,028)	(36,438)
Increase (decrease) in cash and cash equivalents	(24,919)	(4,636)
Cash and cash equivalents - Beginning of year	112,772	117,408
Cash and cash equivalents - End of year	\$ 87,853	\$ 112,772
Interest paid	\$ 38,433	\$ 35,560
Income taxes paid	\$ 46,485	\$ 4,143

1 Summary of significant accounting policies

Principles of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiaries:

Tackama Forest Products Ltd. (Tackama)	100%
Plateau Forest Products Ltd. (Plateau)	100%

Investments

Investments in Fibreco Export Inc. and other investments are accounted for using the equity method.

Inventories

Log, lumber, panel products, and pulp inventories are valued at the lower of average cost and net realizable value.

Processing materials and supplies are valued at the lower of average cost and replacement cost.

Property, plant and equipment

Property, plant and equipment are recorded at cost net of investment tax credits less accumulated depreciation and amortization including the amount of any write-downs. Investment tax credits are recorded when there is reasonable assurance that the credits will be realized. Cost includes capitalized interest and preproduction and start-up costs for major new construction projects.

Manufacturing and production assets are depreciated using the unit-of-production method based on the estimated useful lives of the assets at normal production levels. Depreciation commences upon achievement of commercial production.

The cost of constructing logging roads is amortized on the basis of the volume of timber removed from each logging area.

Timber tenures are recorded at cost and are amortized on a straight-line basis over 15 to 40 years.

Non-manufacturing assets and preproduction and start-up costs are depreciated on a straight-line basis.

Estimated useful lives are as follows:

Buildings	
Pulp	20 years
Wood products	10 to 20 years
Manufacturing machinery and equipment	
Pulp	20 years
Wood products	10 to 20 years
Mobile equipment and other	5 to 10 years
Preproduction and start-up costs	5 years

Reforestation obligation

The Company harvests timber under various licences. Future basic reforestation and silviculture obligations are accrued and charged to earnings on the basis of timber removed from each area. Any differences between the amounts accrued and actual expenditures for reforestation are recorded in the period the costs are incurred. Costs to reach free to grow standards under the B.C. Forest Practices Code are treated as period costs.

Employee benefit plans

The Company maintains a defined contribution plan and defined benefit pension plans that provide for retirement benefits for salaried employees. The defined benefit pension plans provide for benefits based upon the length of service and the final average earnings of the employee. The Company also provides certain healthcare and other benefits to certain eligible retired employees. Pension expense for the defined contribution plan is based on a percentage of employees' salaries.

Foreign currencies

Accounts receivable in United States dollars covered by forward exchange contracts are translated to Canadian dollars at the contract rates. All monetary assets and liabilities in United States dollars are translated to Canadian dollars at the exchange rate in effect at the balance sheet date. Revenue and expense items are translated at the exchange rates in effect on the transaction dates. Realized gains and losses on derivative hedging transactions are recognized in revenue at the time of recording the related sales. Exchange gains and losses are included in earnings except for gains and losses arising on the translation of long-term debt, which are deferred and amortized over the life of the debt or reflected in earnings on settlement of the debt.

Income taxes

Income taxes are calculated using the liability method of tax accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse.

Stock-based compensation plans

The Company has stock-based compensation plans, which are described in note 9. No compensation expense is recognized for these plans when stock or stock options are issued to employees or directors. Consideration paid by employees on exercise of stock options to purchase stock is credited to capital stock.

Earnings per share

The treasury stock method recognizes the use of proceeds that could be obtained upon exercising of options and warrants in computing diluted earnings per share. It assumes that any proceeds would be used to purchase common shares at the average market price during the period.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, balances with banks, and investments in money market instruments with maturity of three months or less.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of anti-dumping and countervailing duty provision, reforestation, road deactivation and environmental obligations, impairment of assets, and rates for depreciation, depletion and amortization. Actual results could differ from those estimates.

2 Change in accounting policies**Employee benefit plans**

Effective January 1, 2000, the Company adopted the new policy of the Canadian Institute of Chartered Accountants (CICA) with respect to accounting for employee future benefits. The policy requires the recognition of the costs of retirement benefits and certain post-retirement benefits over the periods in which the employees render services in return for the benefits. The policy has been implemented on the prospective basis. The accrued benefit obligation and current service cost of the defined benefit pension plans are determined using the projected unit credit cost method pro-rated on years of service and management's best estimates of salary escalation and expected benefit costs and premiums. The discount rate used to determine the accrued obligation is determined by reference to market interest rates.

Defined benefit plan assets are measured at fair value. Plan amendments and transitional amounts are amortized on a straight-line basis over the average remaining service period of the active employees, which is estimated to be 15 years.

Income taxes

Effective January 1, 2000, the Company adopted the new policy of the CICA with respect to accounting for income taxes. The Company has adopted the new recommendations retroactively without restating prior years' financial statements. The cumulative effect of adopting the liability method of accounting for income taxes at January 1, 2000, was to increase fixed assets by \$53,511,000, decrease retained earnings by \$1,663,000 and increase future income taxes (previously described as deferred income taxes) by \$55,174,000. Prior to January 1, 2000, income taxes were accounted for by the deferral method.

3 Inventories

	2001	2000
Logs	\$ 67,667	\$ 66,300
Lumber	89,463	92,453
Pulp	4,218	11,837
Panel products	2,913	3,187
Processing materials and supplies	23,097	22,960
	\$ 187,358	\$ 196,737

4 Investments and other assets

	2001	2000
Fibreco Export Inc. (20.62% interest)	\$ 2,417	\$ 2,221
Timber deposits	463	341
WCB rebate	2,891	4,865
Slocan-LP OSB Corp. Joint Venture (note 10)	1,424	571
Other	2,640	2,120
Investment tax credits	-	1,634
	\$ 9,835	\$ 11,752

The Company has business transactions with its equity investees. All transactions are at market prices and on normal business terms.

5 Property, plant and equipment

	2001		
	Cost	Accumulated depreciation and amortization	Net
Land	\$ 7,518	\$ -	\$ 7,518
Pulp mill	189,552	181,989	7,563
Sawmills and panel operations	560,145	298,745	261,400
Logging roads	113,125	76,627	36,498
Timber tenures	158,843	29,982	128,861
	\$ 1,029,183	\$ 587,343	\$ 441,840

	2000		
	Cost	Accumulated depreciation and amortization	Net
Land	\$ 7,518	\$ -	\$ 7,518
Pulp mill	188,728	181,634	7,094
Sawmills and panel operations	549,577	267,076	282,501
Logging roads	95,596	61,121	34,475
Timber tenures	158,743	24,380	134,363
	\$ 1,000,162	\$ 534,211	\$ 465,951

6 Deferred charges

	2001	2000
Deferred financing fees	\$ 3,259	\$ 3,984
Deferred foreign exchange loss	21,249	2,817
Other	8,097	7,147
	\$ 32,605	\$ 13,948

7 Reforestation obligation

The Company's reforestation obligation and expense are:

	2001	2000
Reforestation obligation - Beginning of year	\$ 15,333	\$ 16,216
Expense for the year	19,054	16,929
	34,387	33,145
Less: Paid during the year	19,860	17,812
Reforestation obligation - End of year	\$ 14,527	\$ 15,333
Current - included in accrued liabilities	\$ 10,065	\$ 10,967
Long-term	4,462	4,366
	\$ 14,527	\$ 15,333

8 Long-term debt

	2001	2000
Senior notes payable (US\$240 million)	\$ 381,648	\$ 359,880
Capital lease obligations and other	-	1,918
	381,648	361,798
Less: Current portion	-	1,918
	\$ 381,648	\$ 359,880

The Canadian equivalent of the senior notes payable has been calculated using the year-end spot exchange rate.

The terms of the Company's debt facilities are:

- a revolving operating credit facility of \$120 million, with interest at LIBOR plus 1-3/8% for a minimum period to August 2002. At December 31, 2001, \$7.8 million of the facility has been utilized by the issuance of short term letters of credit.
- senior notes payable (US\$240 million), issued in series with varying maturities and interest rates as follows:

Series	Maturity date	Interest rate %	Amount
B	October 24, 2003	8.32%	US\$ 50,000
C	October 24, 2005	8.49	60,000
D	January 24, 2006	8.49	30,000
E	October 24, 2007	8.63	100,000
			US\$ 240,000

c) substantially all of the Company's assets have been pledged as security for the debt facilities. The security over the assets will be released by its lenders if the Company achieves certain financial ratios for six consecutive quarters after the completion of the Slocan-LP OSB Corp. mill (note 10).

d) scheduled repayments of senior notes payable over the next five years are:

2003	(US\$50 million)	\$ 79,510
2005	(US\$60 million)	\$ 95,412
2006	(US\$30 million)	\$ 47,706

9 Capital stock

Authorized

10,000,000 preferred shares without par value

80,000,000 common shares without par value

Issued – Common

	2001		2000	
	Number of shares	Amount	Number of shares	Amount
Capital stock - Beginning of year	36,495,655	\$ 176,393	38,245,143	\$ 184,917
Shares issued via stock options	400,241	1,653	160,512	707
Share repurchase	-	-	(1,910,000)	(9,231)
Capital stock - End of year	36,895,896	\$ 178,046	36,495,655	\$ 176,393

Share capital transactions

During 2000, the Company repurchased 1.91 million common shares of the Company under a normal course issuer bid for \$16,246,000. The excess of the purchase price over paid-up capital of the shares repurchased (\$7,015,000) was charged to retained earnings.

Stock option plans

The Company has two stock option plans. Under the Employee Stock Option Plan, the Company may grant options to its employees for up to 4,152,850 shares of common stock. Under the Directors Stock Option Plan, the Company may grant options to directors for up to 300,000 shares of common stock all of which had been granted as of December 31, 2001. The exercise price per share under these plans is to be determined by the board of directors. The vesting of the options occurs at a rate of 20% per annum for options granted in 1997 and 33% per annum for options granted in 1998 and subsequent.

A summary of the status of the Company's two stock option plans as of December 31, 2001 and 2000, and changes during the years ending on those dates, is presented below:

	2001		2000	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Options				
Outstanding - Beginning of year	2,382,566	\$ 8.18	1,602,512	\$ 6.99
Granted	389,000	8.90	1,156,500	10.09
Exercised	(400,241)	(4.13)	(160,512)	(4.40)
Expired/forfeited	(221,734)	(14.75)	(215,934)	(12.33)
Outstanding - End of year	2,149,591	\$ 8.39	2,382,566	\$ 8.18
Options exercisable at year end	1,516,099		1,528,466	

The following table summarizes information about stock options outstanding at December 31, 2001:

Exercise price (\$)	Number outstanding	Weighted average remaining contractual life (years)	Number of exercisable options
3.65	381,511	7.0	381,511
4.65	30,000	7.0	30,000
7.60	301,480	9.0	200,987
7.65	226,600	1.0	226,600
8.05	150,000	9.0	100,000
8.90	389,000	10.0	129,667
9.35	250,000	8.5	166,667
13.00	421,000	8.0	280,667
	2,149,591		1,516,099

Employee share purchase plan

The share purchase plan is available to all employees. Purchases of common shares under this plan will either occur on the open market or from treasury stock. Under the plan, the Company will discount stock issued from treasury by 5% of the market price or contribute 5% to any purchases of stock on the open market.

10 Commitments

a) During 2000, the Company entered into a joint venture agreement with Louisiana-Pacific Canada Ltd. to construct and operate an oriented strand board mill in Fort St. John, BC. The mill is expected to cost approximately \$200 million, of which the Company has committed to finance 50%. The Company will invest \$5.0 million in the joint venture by way of equity and loans and expects to finance approximately 50% of its share of the project cost out of its existing cash resources and operating cash flows with the balance from project financing. Once the mill is operational, the Company is committed to supplying 330,000 m³ of timber to the joint venture out of its existing timber tenure in the area. Assuming the decision is made to proceed with the project, the timing of commencing construction will be subject to a review of the supply and demand balance for oriented strand board, favourable economic conditions and an understanding of the implications of the British Columbia forest policy changes relating to the resolution of the softwood lumber issue. To December 31, 2001, the Company has incurred \$1,424,000 of costs associated with this project, which are recorded in investments and other assets (note 4).

b) During 1999, Slocan was successful, with the assistance of the B.C. Job Protection Commission, in developing an economic plan which enabled Slocan to maintain operations at its Pulp Mill through a period of depressed conditions in the pulp industry. This plan included restructuring energy costs based on a formula tied to pulp prices and mill operating rates. Under the plan, energy costs in future years will be based on the prevailing price of pulp and mill operating rates, which may result in higher energy costs as pulp markets improve, and will continue until such higher costs equate to the cumulative benefit received which at December 31, 2001 amounted to \$9.3 million.

11 Contingent Liability and Subsequent Event

On April 2, 2001, petitions for the imposition of antidumping and countervailing duties on softwood lumber from Canada were filed with the U.S. Department of Commerce (USDOC) and the U.S. International Trade Commission (USITC), by certain U.S. industry and trade groups (the Petitioners).

The USITC made a preliminary determination that there was a reasonable indication that the U.S. lumber industry was threatened with material injury by reason of softwood lumber imports from Canada.

On August 9, 2001, the USDOC issued its preliminary determination in the countervailing duty investigation and imposed a preliminary duty rate of 19.31% to be posted by cash deposits or bonds on the exports of softwood lumber to the U.S. on or after August 17, 2001. The USDOC also made a preliminary determination that certain circumstances may have existed that may result in duties on exports of softwood lumber applying retroactively to

May 19, 2001 ("Critical Circumstances"). The preliminary duty rate of 19.31% was suspended on December 15, 2001, 120 days after the preliminary determination, in accordance with U.S. law.

On October 31, 2001, the USDOC issued its preliminary determination in the antidumping duty investigation and imposed a company specific preliminary duty rate for bonding purposes of 19.24% on the Company. The preliminary antidumping duty rate applies to certain exports of softwood lumber to the U.S. on or after November 6, 2001.

On March 22, 2002 the USDOC issued its final determination in the countervailing duty and antidumping investigations, adjusting the countervailing duty rate for deposit purposes from 19.31% to 19.34% and reducing the antidumping duty rate for deposit purposes for the Company from 19.24% to 7.55%. The USDOC also determined that no critical circumstances existed in either the countervailing or antidumping cases, and accordingly the duties are not applied retroactively to May 19, 2001.

For accounting purposes, the Company has accrued \$21.0 million (\$13.4 million after tax) for the period from August 17, 2001 to December 15, 2001 representing the final countervailing duty rate determined by the USDOC of 19.34%. The Company has also accrued \$5.0 million (\$3.2 million after tax) for the period from November 6, 2001 to December 31, 2001 representing the

Company's estimate of antidumping duties. The estimate has been calculated using the USDOC's methodology and actual sales to the U.S. from November 6, 2001 to December 31, 2001 which has resulted in an estimated accrual rate of 6.15%. Notwithstanding the final rates established in the investigations, the ultimate liability for the assessment of countervailing and dumping duties will not be determined until each annual administrative review process is complete. The Company and other Canadian forest product companies, the Federal Government and Canadian provincial governments ("Canadian Interests") categorically deny the US allegations and strongly disagree with the countervailing and dumping determinations made by the USITC and USDOC. Canadian Interests continue to aggressively defend the Canadian industry in this US trade dispute. Depending on the outcome of the final phase of the investigation, Canadian Interests may appeal the decision of these administrative agencies to the appropriate courts, NAFTA panels and the WTO.

The final amount and effective date of countervailing and antidumping duties that may be assessed on Canadian softwood lumber exports to the U.S., cannot be determined at this time and will depend on determinations yet to be made by the USITC and any reviewing courts, NAFTA or WTO panels to which those determinations may be appealed.

12 Employee benefit plans

The Company maintains both defined benefit and defined contribution pension plans covering substantially all salaried employees. The following significant actuarial assumptions were employed to determine the pension expense and the accrued pension obligations of the defined benefit plans:

	2001	2000
Expected long-term average rate of return on plan assets	7.73%	7.44%
Discount rate	6.75%	7.25%
Rate of compensation increase	2.19%	3.00%

The change in accrued benefit obligation during the year was:

	2001	2000
Balance - Beginning of year	\$ 50,978	\$ 45,184
Change in actuary assumptions	3,921	1,590
Current service cost	2,880	2,407
Interest cost	3,736	3,513
Benefits paid	(2,523)	(1,716)
Balance - End of year	\$ 58,992	\$ 50,978

The change in plan assets during the year was:

	2001	2000
Fair value - Beginning of year	\$ 49,751	\$ 44,197
Actual return on plan assets	2,056	4,784
Employer contributions	2,720	2,486
Benefits paid	(2,523)	(1,716)
Fair value - End of year	\$ 52,004	\$ 49,751

The funded status of the plan is:

	2001	2000
Deficiency of plan assets	\$ 6,988	\$ 1,227
Unamortized net actuarial gain (loss)	(4,448)	1,407
Unamortized transitional obligation	847	703
Net accrued benefit liability	\$ 3,387	\$ 3,337

Included in the accrued benefit obligation amounts above are unfunded obligations for supplemental benefits to the extent that the benefit under the defined benefit pension plan is limited by statutory restrictions. At December 31, 2001, the projected benefit obligation for supplemental benefits was \$5.7 million.

The total pension expense for the year is:

	2001	2000
Defined benefits plan		
Current service costs	\$ 2,880	\$ 2,407
Employee contributions	(152)	-
Interest on accrued benefit obligation	3,736	3,513
Expected return on plan assets	(3,878)	(3,336)
Amortization of net transitional obligation	144	144
	2,730	2,728
Defined contribution plan	1,491	1,473
Total pension expense	\$ 4,221	\$ 4,201

At December 31, 2001, the actuarial net present value of the accrued benefit obligation for healthcare and other post-retirement benefits was \$4.1 million and the related expense for the year was \$621,720 based on a healthcare cost trend rate which is estimated to decrease from 8.5% in 2000 to 4.5% over five years.

13 Income taxes

The tax effects of the significant components of temporary differences that give rise to future income taxes are as follows:

	2001	2000
Current future income taxes payable		
Deferred income	\$ 13,129	\$ 32,408
Current reforestation	(3,585)	(3,958)
	9,544	28,450
Future income taxes payable		
Depreciable capital assets	94,391	96,632
Contingent liability	(9,246)	-
Long-term reforestation	(1,589)	(1,565)
Other	(3,726)	(8,312)
	79,830	86,755
	\$ 89,374	\$ 115,205

The Company's effective tax rate is as follows:

	2001	2000
Federal income tax - net	\$ (4,238) (22.1) %	\$ 22,167 22.1 %
Provincial income tax - net	(3,164) (16.5)	16,550 16.5
	(7,402) (38.6)	38,717 38.6
Permanent differences	- -	149 0.1
Large corporations tax	988 5.0	470 0.5
Tax rate changes	(6,300) (32.9)	- -
Other items	499 2.6	(63) (0.1)
	\$ (12,215) (63.9) %	\$ 39,273 39.1 %

14 Earnings per common share

Basic earnings per share is calculated on net earnings available to common shareholders using the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated on net earnings available to common shareholders, adjusted for the effects of dilutive convertible securities, if any, using the weighted average number of common shares outstanding during the period increased by the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued.

	2001	2000
Basic		
Net earnings (loss) available to common shareholders	\$ (6,809)	\$ 61,203
Weighted average number of common shares outstanding	36,726,288	37,838,920
Basic earnings (loss) per share	\$ (0.19)	\$ 1.62
Diluted		
Incremental shares from assumed options (see below)	0	698,838
Adjusted weighted average number of shares	36,726,288	38,537,758
Diluted earnings (loss) per share	\$ (0.19)	\$ 1.59

Options to purchase 2,149,591 common shares outstanding at year-end were excluded from the computation of diluted earnings per share as their inclusion would be anti-dilutive. In 2000, 639,000 options were excluded because the exercise price of the options was greater than the average market price of the common shares.

15 Segmented information

The Company's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different technology and marketing strategies.

The three reportable segments are lumber, panel products and pulp. The lumber segment manufactures dimension lumber in varying grades and species for the construction industry; the panel product segment manufactures plywood and oriented strand board to serve the construction industry; and the pulp segment manufactures CTMP for paper, packaging, industrial and consumer products.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Interest expense and income are allocated based on capitalization and the working capital position of the segment. The Company evaluates performance based on profit or loss from operations.

2001	Lumber	Panel	Pulp	Non-segment	Total
External sales	\$ 645,281	\$ 158,927	\$ 63,495	\$ -	\$ 867,703
Depreciation and amortization	\$ 42,109	\$ 11,929	\$ 356	\$ 891	\$ 55,285
Earnings (loss) from operations before U.S. duties	\$ 44,773	\$ 13,366	\$ (11,315)	\$ (4,739)	\$ 42,085
Countervailing and anti-dumping duty provision	\$ (25,957)	\$ -	\$ -	\$ -	\$ (25,957)
Earnings (loss) from operations	\$ 18,816	\$ 13,366	\$ (11,315)	\$ (4,739)	\$ 16,128
Interest income	\$ 2,268	\$ 1,064	\$ -	\$ -	\$ 3,332
Interest expense	\$ (15,056)	\$ (7,063)	\$ (10,092)	\$ (6,424)	\$ (38,635)
Earnings (loss) before income taxes	\$ 6,028	\$ 7,367	\$ (21,407)	\$ (11,163)	\$ (19,175)
Total assets	\$ 596,972	\$ 175,094	\$ 36,742	\$ 30,801	\$ 839,609
Capital expenditures	\$ 26,934	\$ 3,573	\$ 823	\$ 77	\$ 31,407

2000	Lumber	Panel	Pulp	Non-segment	Total
External sales	\$ 648,213	\$ 169,407	\$ 108,243	\$ -	\$ 925,863
Depreciation and amortization	\$ 43,743	\$ 12,174	\$ 186	\$ 868	\$ 56,971
Earnings (loss) from operations	\$ 72,219	\$ 38,142	\$ 23,705	\$ (6,381)	\$ 127,685
Interest income	\$ 5,902	\$ 2,800	\$ -	\$ -	\$ 8,702
Interest expense	\$ (13,156)	\$ (6,189)	\$ (10,605)	\$ (6,134)	\$ (36,084)
Earnings (loss) before income taxes	\$ 64,965	\$ 34,753	\$ 13,100	\$ (12,515)	\$ 100,303
Total assets	\$ 618,072	\$ 199,253	\$ 42,914	\$ 13,744	\$ 873,983
Capital expenditures	\$ 43,526	\$ 20,303	\$ 6,883	\$ -	\$ 70,712

Non-segment detail

	2001	2000
Loss before income taxes		
Interest expense	\$ 6,424	\$ 6,134
B.C. corporation capital tax	1,670	1,697
Other	3,069	4,684
	\$ 11,163	\$ 12,515
Total assets		
Deferred charges	\$ 3,259	\$ 3,984
Deferred foreign exchange loss	21,249	2,817
Other	6,293	6,943
	\$ 30,801	\$ 13,744

Geographic segmentation

All of the Company's operations, employees and assets are located in British Columbia.

Sales distribution

Sales by major market are:

	2001	2000
United States	\$ 471,875	\$ 430,604
Other foreign countries	204,891	264,346
Total export sales	676,766	694,950
Canada	190,937	230,913
	\$ 867,703	\$ 925,863

Major customers

The Company has no customers that purchased more than 10% of total sales.

16 Change in non-cash working capital items

	2001	2000
Accounts receivable	\$ (6,007)	\$ 2,445
Inventories	9,379	(37,852)
Prepaid expenses	(1,288)	(138)
Current income taxes payable	(33,661)	31,995
Utilization of investment tax credits	-	23,654
Accounts payable and accrued liabilities, excluding current portion of reforestation obligation	(964)	(7,349)
	\$ (32,541)	\$ 12,755

17 Financial instruments

Foreign exchange risk management

A significant portion of the Company's anticipated revenues originate from sales in U.S. dollars and are affected by the Canadian/U.S. dollar exchange rate. The Company uses derivative financial instruments and borrows a portion of its funds in U.S. dollars to reduce its foreign exchange exposure to fluctuations in the value of the U.S. dollar. The Company enters into financial instruments for normal operating purposes.

The derivatives allow the Company to receive fixed amounts of Canadian dollars within a specified range of rates. The notional amounts of derivative financial instruments represent the volume of outstanding transactions as at the reporting date. Realized gains and losses on hedging transactions are recognized in revenue at the time the related U.S. dollar sales are recorded.

a) Put options in U.S. dollars:

	2001		2000	
	Notional amount	Average rate	Notional amount	Average rate
Maturity 2001	-	-	2,000	1.54

The put options are exercisable at the counterpart's option and fix the maximum rate the Company will realize.

b) Forward exchange contracts in U.S. dollars:

	2001		2000	
	Notional amount	Average rate	Notional amount	Average rate
Maturity 2002	26,000	1.5942	39,000	1.5301

The average maturity of the forward exchange contracts as at December 31, 2001 is five months.

Commodity risk management

Because of the highly competitive and cyclical nature of the lumber market, the Company may sell lumber futures to hedge its risk against price volatility. The Company does not hold or acquire lumber futures contracts for speculative purposes.

The Company has entered into futures contracts to purchase natural gas. Based on December 31, 2001 market prices an unrealized loss of \$650,000 exists on these contracts.

Fair values

The carrying value and fair value of the Company's financial instruments are as follows:

	2001		2000	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Long-term debt	\$ 381,648	\$ 373,637	\$ 361,798	\$ 373,479
Derivative financial instruments				
Forward exchange contracts	-	\$ 289	-	\$ 104
Foreign currency options	-	-	-	\$ 304

The carrying values of accounts receivable, investments, income taxes payable, and accounts payable and accrued liabilities approximate their fair values. The fair value of long-term debt is estimated using discounted cash flow analysis utilizing incremental borrowing rates based on the Company's current credit position. The fair value of derivative financial instruments is estimated by obtaining quotations for similar instruments from the Company's counterparties.

OFFICERS AND SENIOR MANAGEMENT

Brandt C. Louie

Chairman

James A. Shepherd

President & Chief Executive Officer

Micheal G. Madriga

Senior Vice-President, Operations

Ronald D. Price

Senior Vice-President,
Chief Financial Officer & Secretary

James I. Barber

Vice-President, Operations

Donald B. Clutterham

Vice-President, Business Development

Terry D. Hodgins

Vice-President & Financial Officer

Julius Juhasz

Vice-President, Forest Resources

E. Terrence Upgaard

Vice-President, Sales & Marketing

Alex Ferguson

Chief Forester

Derek Stewart

General Manager, Fort Nelson Operations

Roger V. Ennis

Manager, Forestry & Communications

Keith R. Leech

Manager, Human Resources

Daniel G. Muzzin

Manager, Systems Development

Steven T. Pelton

Division Manager, Vavenby Division

Edward J. Anthony

Division Manager, Plateau Division

Marcel E. Favron

Division Manager, Valemount Division

Fred F. Fominoff

Division Manager, Taylor Pulp Division

Keith D. McGregor

Division Manager, Mackenzie Division

Ken Petteplace

Division Manager, Quesnel Division

Alistair Mellander

Division Manager, Uneeda Wood
Products Division

Cameron D. Milne

Division Manager, Slocan Division

Kerry R. Staples

Division Manager, Radium Division

Lorence A. Forsberg

Division Manager, PolarBoard Division

John LaRue

Division Manager Tackama Division

BOARD OF DIRECTORS

Irving K. Barber

Retired

Kenneth P. Benson

Retired

Stephen T. Bellringer

Chairman, Anthem Properties Corp.

William J. Corcoran

Vice Chairman, Jarislowsky Fraser Limited

Stephen A. Jarislowsky

Chairman & Chief Executive Officer,
Jarislowsky Fraser Limited

Brandt C. Louie

Chairman, Slocan Forest Products Ltd.
and President, H.Y. Louie Co. Limited

Michael J. Korenberg

Managing Director, Vice-Chairman
of The Jim Pattison Group

James A. Pattison

President, Managing Director,
Chief Executive Officer & Chairman
of The Jim Pattison Group

James A. Shepherd

President & Chief Executive Officer,
Slocan Forest Products Ltd.

John Weatherall

President, Scarthmoor Asset
Management Inc.

STOCK EXCHANGE LISTING

Stock Exchange - Toronto
Trading symbol - SFF

SOLICITORS

Lawson Lundell

925 West Georgia Street
Vancouver, BC V6C 3L2

REGISTRAR AND TRANSFER AGENT

CIBC Mellon Trust Company

Principal Offices:
Vancouver and Toronto

AUDITORS

PricewaterhouseCoopers LLP

4th Floor - 609 Granville Street
Vancouver, BC V7Y 1L3

OFFICES

Head Office and Sales

#240 - 10451 Shellbridge Way
Richmond, BC V6X 2W8
Telephone: (604) 278-7311
Fax: (604) 278-7316

Mackenzie Operations

P.O. Box 310
Mackenzie, BC V0J 2C0

Plateau Division

P.O. Box 2000
Vanderhoof, BC V0J 3A0

PolarBoard Division

Mile 294, Alaska Highway
Fort Nelson, BC V0C 1R0

Quesnel Division

P.O. Box 8000
Quesnel, BC V2J 3J5

Radium Division

P.O. Box 39
Radium Hot Springs, BC V0A 1M0

Slocan Division

Slocan, BC V0G 2C0

Tackama Division

R.R. #1
Fort Nelson, BC V0C 1R0

Valemount Division

P.O. Box 189
Valemount, BC V0E 2Z0

Vavenby Division

P.O. Box 39
Vavenby, BC V0E 3A0

Uneeda Wood Products Division

6550 Unsworth Rd.
Chilliwack, BC V2R 4P4

Taylor Pulp Division

P.O. Box 330
Taylor, BC V0C 2K0

ANNUAL MEETING

The twenty-fourth Annual General Meeting of the Company will be held in the Garibaldi Room of The Four Seasons Hotel, 791 West Georgia St., Vancouver, BC at 2pm on the 24th day of May, 2002.



Slocan Forest Products Ltd.

240-10451 Shellbridge Way

Richmond, British Columbia, Canada V6X 2W8

info@slocan.com

Tel.604.278.7311

Fax.604.278.7316

www.slocan.com